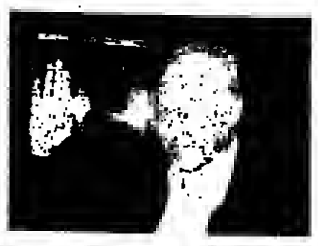
FINANCIAL TIMES

Start the week with...



Lee Kuan Yew

In the shadow of China

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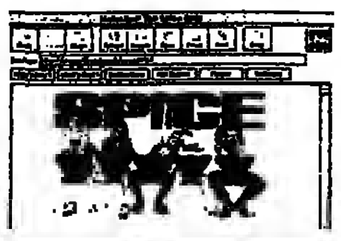
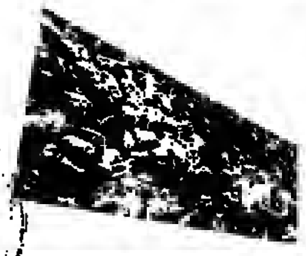


Marketing

Pop goes the Internet

Alice Rawsthorn, Page 11



Today's surveys

Mastering Finance
Fukuoka

Separate sections

World Business Newspaper http://www.FT.com MONDAY MAY 12 1997

Death toll in Iran earthquake reaches 2,400

The death toll from Iran's earthquake rose to nearly 2,400 yesterday, according to the Iranian news agency IRNA. The number of injured was 6,000, the agency added in a report from Mashhad, capital of the stricken north-eastern province of Khorasan. Interior minister Ali Mohammed Besharati said initial estimates put the destruction in the most heavily-damaged cities of Qaen and Birjan in eastern Iran at $67m. A UN official flew to the scene to assess damage and to report on aid needed to cope with tha aftermath of the earthquake, which registered 7.1 on the Richter scale. Page 5

Famine looms over N Korea: World Food Programme officials returning from Pyongyang report that unless substantial emergency food aid reaches the country by next month, North Korea could turn into "one of the biggest humanitarian disasters of our lifetime". Page 16

France to keep US meat ban: France will ban imports of US meat treated with hormones even if it means heavy fines, says French agriculture minister Philippe Vasseur. France would also require special labels on American meat from July 1 so consumers would know its country of origin. Page 3

Cuba accuses US: Havana accused the US government of carrying out a biological attack against Cuba with a plague of bugs reportedly ravaging food crops in three provinces. Washington denied the charges. Page 5

Schumacher wins Monaco Grand Prix:

Michael Schumacher (left) gave Ferrari its first Monaco Grand Prix victory in 16 years in Monte Carlo. He took over the lead in the Formula 1 drivers' standings with his first victory of the year and 23rd of his career. Schumacher won in Monaco in 1994 and 1995 in different cars.

Deutsche Morgan Grenfell, the London-based investment bank, is likely to disclose that a group of its senior managers became entitled to multi-million pound bonuses last year although the group recorded e loss in its UK subsidiary. Page 17

General Electric cable stake: A US consortium including General Electric'e financial arm, GE Capital Services, and Bank of America has become the largest shareholder in Spanish cable TV company Cableuropa. Page 17

French right builds lead: French socialist leader Lionel Jospin urged voters to have the courage of their convictions as a new poll indicated the country's ruling centre-right coalition was rebuilding its lead. Page 3

Estonia likely to link to euro: Estonia is likely to fix its kroon to the euro if the single European currency comes into operation regardless of whether the EU invites Estonia to begin accession negotiations this year. Page 3

German building union warns of strike: Germany's recession-hit building industry could be facing its first official strike since 1950 following the IG Bau union'e rejection of arbitration on pay and conditions. Page 3

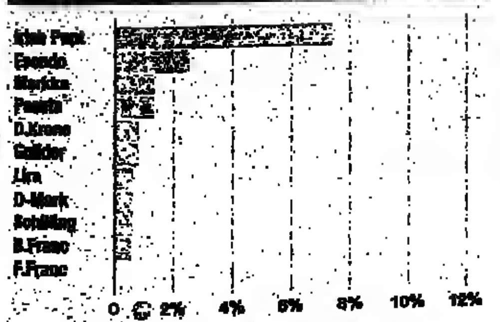
Spanish court controversy: The dismissal of Spain's attorney-general Juan Ortiz Urculo, appointed last summer, is a symptom of a malaise at the heart of the justice system. Page 3

Job worries in Japanese finance: Japanese securities companies have slashed their staff numbers by over a quarter during the past five years. Page 4

All in a good cause: Some companies are making charitable ceuses part of their marketing strategy - and boosting corporate sales in the process. Page 10

European Monetary System: The Italian lira rose three places in the EMS grid last week as more traders took the view that Italy would be admitted to the first round of European monetary union. The Irish punt's lead at the top of the grid shrank further, to 7.39 per cent sbove its central parity rate against the grid's weakest currency. Currencies, Page 23

EMS: Grid — May 9, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides onlina news, comment and analysis at http://www.FT.com

Mobutu built $4bn fortune

Zaire's dictator plundered IMF loans

By Jimmy Burns and Mark Hubend and Michael Holman

Thirty years of embezzlement by Zaire's ruling elite allowed President Mobutu Sese Seko to accumulate a fortune whicb peaked et $4bn in the mid 1980s, an FT inveetigation reveals.

Despite e formal warning in 1982 by a senior official of the international Monetary Fund that the Zairean state was endemically corrupt, western governments continued to support loans totalling $3.9bn in multilateral and bileteral aid between 1982-91. During this period, the IMF msde SDR821m availeble to Zaire.

Belgium's former prime minister Mr Leo Tindemans told the FT laet week: "There ebould have been e tougber policy towarde Zaire...policies introduced by the IMF and the World Bank were not applied rigidly enough...money was lent in the knowledge that nothing was being done to modernise Zaire."

Much of the fortune has been spent as the ailing dictator has attempted to prop up his regime, now thought to be on the verge of collapse as rebels continued their advance on the capital Kinshasa yesterday.

But Mr Mobutu, who is due to hold a second face-to-face meeting with rebel leader Mr Laurent Kebila on a South African nevel vessel on Wednesday, retains a vast property and investment empire around the world.

An FT investigation has identified et least 20 properties held by Mr Mobutu and his entourage, ranging from Belgium to the Ivory Coast, from Switzerland to Morocco, with a minimum estimated value of £23m ($37m).

The FT bas learnt that US Treasury officials and IMF officials estimated Mobutu's total assets at around $4bn in the mid 1980s. Mobutu aides have told the FT that the Zairean president continues to draw on secret accounts beld in western banks and on investments in South Africa.

Western government and financial institutions supported and provided aid to Mr Mobutu from even before be seized power in 1965, in spite of clear evidence from tbe early years of his regime that the national wealth was being systematically stolen.

Initially the Central Intelligence Agency backed Mr Mobutu with a covert line of financial assistance.

Throughout the 1970s, export earnings were held in foreign eccounts by the elite surrounding Mr Mobutu, and barely used for investment in Zaire.

In 1982 the IMF, then under the Mr Jacques de Larosière, received a detailed account of Mr Mobutu's financial corruption in a report written for the fund by a senior German banker, Mr Erwin Blumenthal.

However, Western political pressure for Mr Mobutu to be bolstered led to IMF assistance to Zaire substantially increasing following the report.

Mr de Larosière, who is now head of the European Bank for Reconstruction and Development, said he was not available to discuss his role in Zaire. The IMF also said it was not prepared to comment.

In London one senior British banker closely involved with Zaire told the FT: "By the early 1980s Mobutu was an untouchable in client terms – I couldn't think of exposing another penny to him."

He added: "The country was virtually bankrupt and massive inflows of foreign exchange were clearly being siphoned off...in that context if there were any bankers still willing to lend money, there are some serious questions to be asked ebout them."

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Editorial Comment, Page 15
Observer, Page 15

Pharmacia & Upjohn hires new chief

By Katharine Campbell in London

Pharmacia & Upjohn, the troubled US-Swedish drugs company which is struggling to make its 1995 merger work, has hired Mr Fred Hassan, e senior executive at American Home Products, the US drugs company, as its new chief executive.

Mr Hassan, a pharmaceuticals industry veteran, replaces Mr John Zabriskie, the president and chief executive officer who departed suddenly in January. Pharmacia & Upjohn has issued three profits warnings in the past six months.

Mr Hassan, 51, an American of Pakistani origin, will travel to the group's headquarters near London tomorrow to take up his position. He was previously executive vice-president – and one of the top three executives – at AHP.

Since the end of 1995, Mr Hassan has been responsible for global pharmaceuticals, the medical device and nutritional businesses, and research and development.

Mr Jan Ekberg, acting chief executive eince Mr Zabriskie quit, said Mr Hassan was "e really global person with very good experience leading an international team".

Mr Ekberg will now resume his position as non-executive chairman, replacing Mr Richard Brown, who has been interim chairman since January, and who remains a non-executive director.

Mr Prem Lachman, pharmaceuticals analyst at Goldman Sachs, the US investment bank, said Mr Hassan was "a firm decision-maker, which will be an improvement. He is down to earth, and a consensus-builder, and he delegates effectively".

Unusually for e drugs company chief executive, he has run research and development operations, both at AHP – which he joined in 1989 as president of its Wyeth-Ayerst Laboratories division – and at Sandoz, the Swiss drugs group, where he spent the previous 17 years of his career.

His experience as one of the leaders of American Home Products' $10bn acquisition of American Cyanamid at the end of 1994 was another important fector in his eelection, according to Mr Ekberg.

Mr Hassan will need his international experience to blend the very different cultures of Pharmacia of Sweden and Upjohn of the US.

Prior to AHP, Mr Hassan had risen to chief executive officer of the US pharmaceutical business of Sandoz.

At the end of April, P&U unveiled a fall in net profit

Continued on Page 16

Pope John Paul II, on a visit to Lebanon, celebrated mass yesterday on a building site in the capital Beirut. The Pope talked of Moslem-Christian reconciliation and told 300,000 people that Lebanon was an example to the world of religious co-existence Reuter

Pilot denies helping Bre-X geologist fake death

By James Kynge in Balikpapan, Justin Marozzi in Manila and Manuela Saragosa in Jakarta

The pilot who flew Mr Michael de Guzman on his last flight over the Indonesian jungle has flatly denied he helped the Bre-X Minerals geologist to escape by faking his death. Bre-X's Busang gold claim has been exposed as the world's biggest mining fraud.

Mr Edy Tursono, a pilot with Indonesia Air Transport in the Borneo town of Balikpapan, was adamant, in his first interview since Mr de Guzman's mysterious disappearance, that the geologist had committed suicide by jumping from a helicopter at a height of 800ft – although he did not actually see him jump.

"I did not think that Mike would go and jump, bnt when Mike wasn't there I thought he must have jumped," Mr Tursono said.

The pilot also rejected assertions, made chiefly by Mr de Guzman's family in the Philippines, that tha geologist either fell accidentally or was murdered. In Jakarta yesterday, Indonesian police denied a report thet they had opened a murder investigation into Mr de Guzman's disappearance.

But Mr Tursono's account failed to solve the mystery, and contradicted the de Guzman family's version of events on several points. Mr de Guzman's fate is seen as crucial to unravelling the frand.

The most common belief is that Mr de Guzman, who was flying to Busang to meet geologists from Bre-X's new partner, Freeport McMoRan Copper & Gold, jumped to his death because he feared Freeport had uncovered the fraud. Others think Mr de Guzman is still alive and thet his death was staged to allow him to disappear.

The latter theory turns on what people say was a close friendship between Mr Tursono and Mr de Guzman. Mr Tursono denied helping

Continued on Page 16
Bre-X pilot, Page 19

Banks attack EU plan to limit phone call taping

By John Gapper in London

Investment banks in the City of London have protested to the European Union over a planned directive on telephone tapping which they fear could disrupt their routine taping of phone calls made by their traders.

The London Investment Bankers Association is lobbying the UK government and European institutions over a directive intended to protect tha privacy of individuals, which precludes the taping of conversations without warning.

Investment banks commonly tape all traders' conversations in case of a disagreement between customers and traders over transactions. Managers can listen to tapes later to find out if a trader acted as requested by a customer.

However, the EU's directive on processing of personal data and protection of privacy in telecommunications, which is now being considered by the European parliament, limits anonymous taping of any individual without permission.

The current draft of the directive would not only require a trader to warn every customer individually that he or she was being taped, but would make it difficult for banks to place unsolicited calls to investment institutions.

The Libe protest is being supported by the Confederation of British Industry and by the Department of Trade and Industry. The association thinks it may succeed in limiting what would be an unintended consequence of the directive.

Mr Peter Beales, e director of Liba, said members would be "very depressed" if the directive could not be amended. "The taping of calls is hugely important to our members and it appears overburdensome to limit it in this way," he said.

Although tapes are usually listened to by banks to resolve trading disputes, they are commonly examined by regulators in inquiries into controversial incidents. Regulators could be concerned if such taping was limited in future.

Investment banks say they would not mind being required to gain a blanket waiver from companies and investmant funds for the taping of conversations, bnt the directive would require all individuals being taped to give permission.

They fear thet this would create unnecessary delays in the execution of trades on behalf of customers because the price of a financial security could move while an individual fund manager was being asked to agree to being taped.

Another of the directive'e clauses, drafted by the European parliament, would extend the prohibition of the "cold-calling" of individuals to cases where companies call others without their permission.

CONTENTS

ZAIRE: SPECIAL REPORT

How Mobutu built up his $4bn fortune

Seen at first as a bastion against communism, Zaire's president proceeded to siphon off vast resources while the west looked the other way. **Jimmy Burns** and **Mark Huband** investigate

A stone pedestal before the private driveway of the Villa del Mar commemorates Sir Winston Churchill as a *citoyen d'honneur* of Cap Martin. Off Avenue Churchill a sbaded cul-de-sac leads to the French Riviera residence of Mr Mobutu Sese Seko, the Zairean president, whicb serves as a monument of a different sort.

Iron gates, and a sign warning unwanted visitors tbat guard dogs may he snarling on the other side of the wall, hide the villa, which a local estate agent estimated as being wortb FFr25m-FFr30m ($4.3m-$5.2m).

"It's the children he hrings with him that we see the most," said the owner of tbe nearby newsagent. "The seven- and eight-year-olds wbo come in here with wallets full of FFr500 notes, and huy up everything. Even the children are richer than me. But we know how he got all tbat money, and we wouldn't like it if he came here to retire. We would object. Tbe people of France would object."

The Mobutu story is about the venality and corruption of one of Africa's most eccentric dictators, and how and wby he persuaded others to help him during his 32-year rule. It is about personal enrichment and the plundering of the nation, and the international complicity that made it possible.

An FT investigation has found that in spite of clear evidence from early in his regime that Mr Mohutu misappropriated and wasted funds, financial institutions, with the hlessing of their governments, continued to give aid, little of which found its way to the ordinary people of Zaire.

Property is the most visible part of his overseas asset structure. The Villa del Mar is the largest of a cluster of luxury homes dominating a small hill leading down to the Mediterranean.

It is one of 20 identified properties held by Mr Mobutu and his entourage, from Belgium to Ivory Coast, from Switzerland to Morocco, with a minimum estimated value of £23m ($37m), according to estate agents' estimates and property records obtained by the FT. His and his family's property portfolio also extends to a hotel and residences in South Africa, as well as a coffee plantation in Brazil.

Obscuring the extent of investments financed essentially with funds embezzled from the Zairean state, much of the property is held in the names of front companies, business associates and family memhers not using the Mohutu name.

The FT has established that the largest concentration of properties is in the wealthy suburbs of the Belgian capital, Brussels.

The true size of his fortune, amassed during three decades of plunder, is said hy US Treasury and IMF officials to have peaked at around $4bn in tbe mid 1980s. But his fortune bas heen trimmed as the cost of staying in power has grown.

Mr Mohutu himself was a creature of tbe cold war. In 1960 Patrice Lumumha hecame prime minister of what bad previously been Belgian Congo and hegan courting the eastern bloc. The US Central Intelligence Agency reacted by considering Lumumba's assassination and sought an alternative leader as a hastion against communism. It found the 30-year-old army chief Joseph-Désiré Mobutu, wbose associates arrested and killed Lumumba without CIA assistance later the same year.

"The US stepped in at independence because the place was a plum financially," said Mr John Stockwell, former CIA chief of base in Zaire. "At that time people were impressed by Mobutu. In 1960 nobody was prepared for what happeoed [later]."

For more than 20 years western presidents, generals, spies and bankers made no attempt to curb his excesses, but saw him as a necessary ally against communism. Only in the post-cold war years has Mr Mobutu found his fortune insufficient to retain his grip on power.

In 1965 Mr Mobutu took over a country rich with enormous reserves of copper, cobalt, diamonds, timber, as well as vast tracts of land suitable for producing coffee and cocoa.

Between 1970 and 1994 Zaire received $8.5bn in grants and loans from western donors. Export earnings for the same period, less a five-year gap for which figures are not availahle, were $10.7bn, according to the IMF.

"Given these sorts of numbers it would be bard to argue mucb was achieved in Zaire, either in economic or social terms, as a result of the aid," an internal World Bank report stated this week.

Throughout his rule Mr Mobutu has used the promise of access to Zaire's wealth as a means hy which opponents have been softened, critics silenced and benchmen rewarded.

"Mobutu used a patronage network. He had to put out a lot of money to stay in power. He has a tremendous need for casb," said a former US assistant secretary of state for African affairs who had daily contact with him. "He had to pay a 10,000-strong presidential guard. And he seems to have trusted a lot of people who stole from him, including his own children. He would give them $5m in cash for investment, and it would he stolen."

Aid to Zaire ($m)

Year	Total	Bilateral	Multilateral
1982	347.4	256.4	91.0
1983	311.0	193.7	117.3
1984	302.6	209.3	93.3
1985	305.8	209.5	96.3
1986	448.3	296.3	152.0
1987	626.6	338.4	288.4
1988	578.1	402.7	175.4
1989	635.4	434.2	201.2
1990	902.3	709.8	192.5
1991	476.7	342.6	134.1
1992	268.1	164.2	103.9
1993	178.4	99.0	79.4
1994	245.6	97.2	148.4

Source: OECD

"In the first few years Mobutu received millions of dollars from the CIA" both before and after he seized power, said Mr Stockwell. "$20m-$25m of CIA and US government aid money could well have gone through Mohutu's hands."

Following tbe outhreak of the Angolan civil war in 1975, money intended for the US-hacked Unita forces in Angola was delivered to Mr Mobutu, who the CIA boped would channel it to the rebels in support of their war against the Moscow-backed MPLA party.

"When Angola was coming under Cuban influence Zaire was considered a fortress that could be trusted. The policy of tbe west, led hy the US, was to help Mobutu as mucb as possihle," said Mr Leo Tindemans, Belgian prime minister from 1974 to 1978.

Bnt Mr Mobutu quickly began to exploit his strategic importance to serve tbe system of embezzlement be was creating. "Early on we channelled $1m via Mobutu intended for the Angolans. But Unita came to us soon after to tell us: we're bungry. We can't do anything. None of the money had gone to the Angolans, and our efforts to get Mobutu to pass the money on were futile," said Mr Stockwell, wbo ran the CIA's covert operation supporting Unita forces. "The CIA knew all along he was pocketing huge amounts of money."

Mr Mobutu had access to far larger sums than those that were provided by the CIA, on one occasion refusing a $25,000 gift from the CIA station chief in Kinsbasa, Mr Lawrence Devlin.

Presidential appropriations granted by parliament officially accounted for 30 to 50 per cent of the budget for capital investment from tbe late 1960s, reaching $65m a year in 1988.

In addition to this presidential appropriation from parliament, whicb bad no influence on how it was spent, Mr Mobutu received further funds for "political institutions" including tbe Mama Mobutu Foundation and the ruling Popular Movement for the Revolution party.

A World Bank report containing data for the period 1980-87 obtained by two US researcbers, Mr Steve Askin and Ms Carole Collins, revealed that in 1986 the presidency received $15m, though tbe World Bank document shows that Mr Mobutu spent $94m and tbe political institutions $172m that year, revealing the extent of other sources of funds.

A 1989 World Bank study sbowed $209m of the year's state expenditure was appropriated for spending on what tbe Central Bank of Zaire itemised as "other goods and services".

"There is no, I repeat no, cbance on the horizon for Zaire's numerous creditors to get their money hack... Mohutu and his government show no concern about the question of paying off loans and the puhlic deht... there was, and there still is, one sole obstacle that negates all prospect: the corruption of the team in power," said Mr Erwin Blumenthal, a senior German banker seconded to the Zaire central hank in 1978, in a secret IMF report circulated in 1982, in the possession of the FT.

Three years earlier, in a letter of June 11 1979 to Mr Jacques de Larosière, then IMF director-general, Mr Blumenthal said: "Things in Zaire went the way I was afraid they would" and gave the strong impression of a hreakdown of trust hetween the regime and IMF.

Mr Blumenthal's damning portrayal of the routine plunder of state finances was ignored by both foreign donors and governments. His report coincided with the huild-up of Cuban troops in Angola, whose presence cemented US support for Mr Mobutu and may have been the reason why the banker's recommendations fell on deaf ears. By 1988 there were 50,000 Cuban troops on Angolan soil, fighting alongside the Marxist government against Unita.

IMF figures show the fund offered nine loans worth SDR231m to Zaire between 1967 and 1982, when the Blumenthal report was completed. But three times this amount was offered hy the fund hetween the year the report was written and 1989.

Mr Blumenthal identified special bank accounts held in the name of the Central Bank of Zaire at seven foreign banks in Brussels, Paris, Geneva, London and New York, holding millions in export earnings which had not been remitted. A key example of payments made to the special accounts reveals the amounts involved. In 1978 the state-owned copper and cobalt giant Gécamines was instructed to deposit its entire export earnings – which by 1989 had reacbed $1.2hn – into a presidential account.

"At the beginning we thought Mohutu was the only person wbo could lead Zaire," said Mr Tindemans. "We thought be had the talent, capacity, and intelligence... then he changed. He just wanted the money from wherever he could get it, private companies, foreign governments. He had no feeling for financial policy but it didn't matter. He knew the money would keep on coming.

"It was not easy to formulate a common attitude towards Mobutu. There were tbose wbo invested in Zaire and flattered Mobutu and others who developed a stance against his government. There was no doubt where the halance lay."

A former Zairean secret service agent, Mr Emmanuel Dungia, recalled: "The money spent by Mohutu in seducing and corrupting senior politicians around the world gave him great satisfaction."

Mr Mamadou Toure, former head of the IMF's Africa department, who knew the special accounts were being used to divert export earnings by the regime, said: "In the late 1970s and early 1980s there were some very bizarre things going on in Zaire. For example, we had discovered that some of the country's export earnings were being held in special accounts outside Zaire and not being recorded in the accounts of the central bank. Instead of foreign earnings being reimbursed, they were diverted to special accounts held in commercial banks outside the country.

"Orders would come from Mobutu that be needed money for a foreign trip, and some senior officials would come to Europe to pick up the money from the special account. All the Central Bank of Zaire officials were intimidated. They felt they had to do what Mohutu told them."

However, things did not all go Mr Mobutu's way. "Two things hurt him," said a senior US official. "In 1978 the bottom fell out of the copper market, and people receiving his patronage wanted to be paid in dollars instead of zaires. Then in 1990 he ended the one-party system and started 45 parties with his money, in order to keep his grip. This took a lot of money, which he took from the productive sector – the mines, first the copper mines, then the diamond mines."

More recently he spent millions of dollars financing a disastrous attempt to use Bosnian Serb mercenaries in his campaign to confront the rebel force which is now poised to overthrow him.

However much his wealth has shrunk in recent years, Mr Mobutu remains extremely wealthy, with a fortune encompassing shares in big Swiss and German companies, liquid cash and his property portfolio centred in Brussels.

His assets in Zaire comprise a vast estate at Gbadolite in northern Zaire which boasts a marble palace, Olympic-size swimming pool, and airport runway able to accommodate Concorde. Outside Kinshasa, the Nsele presidential domain has a large Chinese-style pagoda crowned with a malachite pinnacle. Nearby is moored the Kamanyola, a three-storey river steamer converted to suit Mr Mohutu's love of luxury. Oyster-shaped sofas in pink silk grace the salons, and Mr Mobutu's leopard-head emblem emblazons cutlery, linen and tableware.

A total of nine properties in Brussels ranges from office blocks to chateaux and mansions set in their own parklands in the exclusive residential districts of Uccle and Rhode St Genese. One property is close to the Musée de l'Afrique, built to commemorate exploits of the first plunderer of Zaire's immense wealth, Belgium's King Leopold II.

In Paris, a few metres from the Arc de Triomphe, a first-floor apartment at No 20 Avenue Foch, in the city's exclusive 17th district, provides Mr Mohutu with an 800 sq m city residence close to the furrier who made his seven leopard-skin hats, and convenient for visits to the succession of French presidents who have been his staunch allies.

As one of several alternatives to his Cap Martin boliday home, the 82,186 sq m 12-bedroom Casa Agricola Solear estate at Arelas de Porches in the Portuguese Algarve is also the home of Mr Mobutu's 14,000-bottle wine cellar. Most prized, according to a local source, are the many bottles of vintage port, acquired to satisfy the 66-year-old Mr Mobutu's preference for drinking wine of his own age. Bought on behalf of Mr Mobutu in 1985, but registered under the name of a limited company whose president is Mr Jaime de Cunha Viana, it is currently valued at Esc400m ($2.3m).

Mr Viana is an Oporto-based husinessman wbo was the chief representative of the sizeable Portuguese community in Zaire, and is recognised as Mr Mobutu's representative in Portugal.

Mr Mobutu's Spanish interests include a luxury villa and botels in Marbella, and a luxury home in the Madrid suburb of Las Lomas at Boadilla del Monte valued at Pta200m ($1.38m) when it was bought in 1983 in the name of his sister-in-law.

Meanwhile his hank accounts remain hidden from view. The only attempt by western governments to identify these accounts was made in 1991 when the US, France, and Belgium examined holdings in their own countries. France and the US abandoned plans to freeze Mr Mobutu's assets on the grounds they amounted to very little in their countries, while Belgium claimed it would have lacked sufficient legal instruments if it had pursued the seizure of assets.

Among the banks identified as having dealt with Mr Mobutu and bis financial front-men in the Blumenthal report in 1982 were Banque Bruxelles Lambert, Paribas, Crédit Commerciale, Banque Indo-Suez, Midland Bank and Union Bank of Switzerland.

All banks invoked banking rules of client confidentiality when asked about alleged relationships with Mr Mobutu. Only Midland was prepared to go further: "We have no record of an account being opened on behalf of Mr Mohutu. We have an account with a correspondent hank in Zaire which has been dormant for over a year."

Mr Mohntn was named last week in an internal Belgian government report, written by Mr Hendrijk van Dijk, deputy bead of mission at the Belgian embassy in Luxembourg, citing him among heads of state using accounts in Luxembourg to launder "fantastic" sums of money. Mr Mohutu is named alongside Libya's Muammer Gadaffi, Iraq's Saddam Hussein and the late Emperor of the the Central African Repnhlic, Jean-Bedel Bokassa, as bolding accounts with Luxembourg-based banks.

One senior Swiss banker said it would be "an enormous surprise" if Mr Mobutu was found to have any sizeable sums still invested in Swiss banks. "If he had any sense he would have shifted the bulk of his money out of Switzerland a long time ago to avoid the fate which befell the heirs of ex-President Ferdinand Marcos of the Philippines, whose Swiss bank accounts have been blocked for more than a decade," he said.

Last month Switzerland's Federal Banking Commission asked 12 leading Swiss banks whether they held accounts in the name of Mr Mobutu. All replied they did not, but close aides of Mr Mobutu have confirmed to the FT that the hulk of his liquid assets remains in Swiss banks.

Mr Jean Ziegler, a Swiss Socialist MP and long-time critic of Swiss banking secrecy, does not accept that most of Mr Mobutu's money has already been spirited out of Switzerland.

"We are not talking about $1m in a Swiss bank account, hnt a whole overseas financial empire which has been built up over more than 30 years," said Mr Ziegler, who thinks "several billion dollars" of Mr Mobutu's money have been invested in Switzerland.

Nevertheless, be thinks the longer the Swiss government delays freezing Mr Mobutu's assets, the greater the risk they will disappear. "If this happens then Switzerland will be guilty of being an accomplice to embezzlement on a grand scale," said Mr Ziegler. The Swiss government had acted "very foolishly" and its attitude towards Mobutu mirrored the "typical Swiss bypocrisy" which has marked Swiss relations with Zaire for years. Last November the Swiss government refused to renew Mr Mobutu's entry visa. It was not always so.

The Swiss politican who had the closest ties with Mr Mobutu was Nello Celio, a member of the Radical Democrat party and state president in 1972. As well as being on the board of Credit Suisse, Celio, who died in 1995, was a former chairman of Alusuisse, Switzerland's only aluminium company. He was closely involved in Alusuisse's plans to set up an aluminium smelter in Zaire and was also president of Eurotrust, a big investment fund involved with Zaire.

Now, as the cancer-stricken president tries to cling to power for a few more days, uncertainty surrounds who will inherit his fortune. There will be no shortage of family members, aides and allies desperate to grasp a share of what is left. But the people of Zaire his clique are leaving behind will also be seeking to recover wbat has been stolen from them.

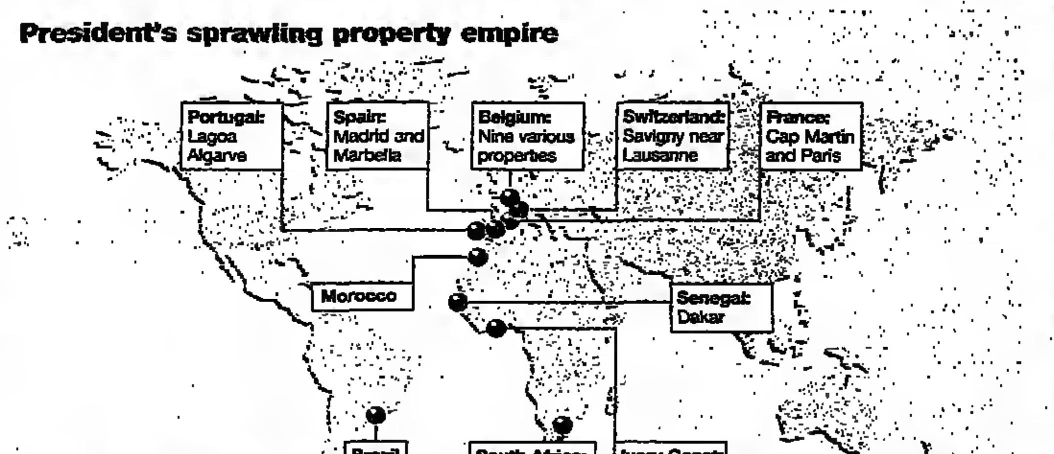
The question is wbether the countries now harbouring his assets will be prepared to lift the veil of secrecy behind which they and Mr Mobutu have hidden for so many years.

Additional reporting: Michael Holman in London, Neil Buckley in Brussels, William Hall in Zurich and Peter Wise in Lisbon

Mobutu: fact file

- Mobutu was born Joseph-Desire Mobutu on October 14 1930 in Lisala, Belgian Congo.
- His full name, Mobutu Sese Seko Kuku Ngbendu waza Banga, translates as: the fearless warrior who will go from strength to strength leaving fire in his wake.
- Mobutu owns at least 20 properties in 10 countries.
- His major-domo is French, his military tailor Spanish, and his barber Portuguese.
- His villa in Portugal has a wine cellar for 14,000 bottles.
- On several occasions he has spent FFr5m a time on chartering Concorde for foreign shopping trips.
- Zaire's health budget was the equivalent of 20 French centimes per person, per year in 1991.
- Only 10 per cent of export earnings from diamonds was remitted to the state diamond authority in 1991.
- Zaire's total foreign debt in 1994 was $9.6bn, excluding arrears.
- Debt repayment is now $4.9bn in arrears.
- Per capita GDP was $117 in 1993, 65 per cent lower than in 1958.

President's sprawling property empire



NEWS: EUROPE

German building union warns of strike

By Peter Norman in Bonn

Germany's recession-hit building industry could be facing its first official strike since 1950 following union rejection of arbitration on pay and conditions.

The IG Bau trade union indicated a strike was possible yesterday after seven of 12 regional pay committees rejected a compromise put forward by Mr Heiner Geissler, an independent arbitrator and leftwing Christian Democrat politician, for a 1.3 per cent pay increase in western Germany but cuts in sick pay and other benefits.

Mr Klaus Wiesehügel, the IG Bau leader, said the union's main pay committee would discuss the dispute today. He said the union would "take industrial action" if the committee rejected the arbitration and the employers would not pay sick pay in full. Mr Wiesehügel did not rule out compromise, however. There was "still a possibility of talks", he said.

The strike threat triggered alarm among politicians and employers. Warning tbat the industry "was up to its neck in water", Mr Norbert Blüm, the labour and social affairs minister, said a strike would be "a bankruptcy promotion programme" that would benefit only low-cost foreign building workers.

Mr Wilhelm Küchler, vice president of the German building industry federation, said rejection of the arbitration would create "very great problems" if it led to industrial action. The construction industry is facing a drop in business of between 1 and 2 per cent this year and is not expected to pull out of recession before 1998.

Strike action would also pose serious problems for the IG Bau union. Early this year, 400,000 German building workers were unemployed, reflecting sluggisb demand and overcapacity, especially in the east. Highlighting the union's dilemma is the presence on German building sites of an estimated 400,000 generally low-paid foreign workers, half of whom are employed illegally, and who have created downward pressure on prices and wages.

The dispute has revealed greater militancy in western Germany than in tbe east. In Sachsen-Anhalt, where one in five of the workforce is unemployed, the IG Bau regional pay committee voted for the arbitrator's plan.

Mr Geissler's proposal to cut sick pay in the first three weeks of illness to 80 per cent from 100 per cent of previous income has emerged as the most contentious element in his arbitration package. It has reawakened memories of last year's struggle, wbcn unions fought tha government over legislation to cut sick pay.

Other cuts proposed by Mr Geissler include a reduction in the "13th month" payment to west German building workers from 100 per cent to 77 per cent of a normal month's pay.

Estonia likely to link its currency to euro

By John Thornhill in Tallinn

Estonia is likely to fix its currency, the kroon, to the euro if the planned single European currency comes into operation, regardless of whether the European Union invites the Baltic state to begin accession negotiations later this year.

Mr Peter Lohmus, vice president of the central bank, said Estonia would most probably adopt the euro as the benchmark for its currency board – if the D-Mark were phased out as a result of European monetary union – although it would review other possibilities at the appropriate time.

For five years, Estonia has fixed its currency against the D-Mark at a rate of 8:1, ensuring its monetary base can only expand in line with its foreign assets. The policy has secured a measure of macro-economic stability undreamt of elsewhere in the former Soviet Union and helped the country produce strong economic growth.

Mr Lohmus edded that Estonia would not deviate from its tough macro-economic regime, whatever decision it took about revising its currency board. "Our main message is that we would lika to pursue tha same conservative monetary policy. Bnt bow it works technically has not yet been decided," he said.

Estonia, which was forcibly incorporated into the Soviet Union in 1940 but regained its independence in 1991, has been pressing hard to re-integrate itself with western Europe. It is lobbying to become a member of both the European Union and Nato.

Mr Toomas Ilves, foreign minister, said Estonia had moved further and faster than either Latvia or Lithuania in reforming its economy and adopting legislation in harmony with that of other EU member states.

Estonia's aspiration to join the EU should be judged on its own merits, he said, and not be subject to other geopolitical considerations. "Of the 28 countries which have emerged from communism we have been the most radical of them," he told foreign journalists last week.

Mr Ilves warned the EU would damage its credibility if it invited other eastern European countries with lesser claims to begin negotiations to become members.

"If it becomes clear that getting into the EU has nothing to do with your performance it would create a backlssb in Estonia and send a clear and discouraging message to all the reforming countries," he said.

Mr Ilves attempted to dispel concerns that Estonia's large ethnic Russian minority would be a potential source of instability within the EU, arguing that opinion polls showed a higher proportion of young Russians favoured joining tbe EU than young Estonians.

"Young Russians want to be members of the European Union just as old Russians want to be members of the Soviet Union," he said.

Mr Ilves has also been campaigning energetically for Estonia to he included in tbe first round of Nato enlargement – to be decided later this year – in spite of Russia's vigorous opposition.

He said Russia, which was suffering from "post-colonial stress", should welcome Nato's expansion as a means of creating a zone of stability on its western border.

Jospin plea as French right builds poll lead

By David Owen in Paris

Mr Lionel Jospin, the French Socialist leader, yesterdsy urged voters to hsve the courage of their convictions as a new opinion poll indicated the country's ruling centre-right coalition was rebuilding its lead.

Speaking in Paris exactly two weeks before the first round of voting in parliamentary elections that could hsve s crucial bearing on prospects for European monetary union, Mr Jospin said the electorate should not be afraid to jettison the prime minister, Mr Alain Juppé, and his unpopular centre-right government.

"The French cannot tolerate the present situation and are conscious of having been abused by broken promises, but at the same time one has tbe impression tbey are afraid to make the change," he said. "I would like to say to them that the worst thing would be not to make that change – to keep this majority, after four years in power, for another five years, practically s decade."

As political leaders vied for the public's attention with competing attractions such as the Cannes film festival and the Monaco grand prix, Mr Juppé pledged to cut welfare charges across a range of industries in an effort to safeguard jobs.

Speaking in his Bordeaux stronghold, the prime minister promised to apply measures that had "saved 35,000 textiles jobs in one year" to new sectors, including hotels and restaurants, building and public works, car repairs and agribusiness.

Yesterday's Ifop poll, in Le Journal du Dimancbe, showed a one percentage point advance to 38 per cent in support for the ruling RPR-UDF alliance, against s combined three-point decline to 35.5 per cent for the main parties of the left. An accompanying analysis suggested this would mean a comfortable centre-right majority · 328-358 seats for the RPR-UDF and 193-227 for the left.

But more than a quarter of respondents indicated they might still change their minds. Polls published last week suggested the left had drawn level with the ruling coalition, which appeared burdened hy Mr Juppé's persistent unpopularity.

The elections will be held in two rounds, on May 25 and June 1.

The timing of the latest poll, conducted on May 9, suggested last week's intervention by President Jacques Chirac might have helped the centre-right's cause. The French president spent yesterday sbaring centre-stage in Cannes with the Spice Girls, the UK pop group, in advance of a state visit to China later this week.

EUROPEAN NEWS DIGEST

France to keep US meat ban

France will ban imports of US meat treated with hormones even if it means heavy fines, Mr Philippe Vasseur, French agriculture minister, said yesterday. France would also require special labels on American meat from July 1 so that consumers would know its country of origin, Mr Vasseur said in an interview on France Info radio.

Since 1989, the European Union has barred imports of beef produced with the aid of synthetic growth hormones. But the World Trade Organisation, in an interim report issued last Wednesday, said the ban was not based on any demonstrated health risk and was therefore an unfair trade barrier.

Mr Vasseur called the US complaint "entirely unfriendly", saying he saw no reason "to try to impose meat on French consumers which they do not want". He said: "My preferred solution, the solution preferred by France, would be to refuse imports of US meat treated with hormones." He added: "I say quite clearly, France is entirely prepared to pay penalties if that is what is needed to prevent hormone-treated American meat from gaining entry to our territory." *Reuter, Paris*

Wiesel will not join fund

Mr Elie Wiesel, the Nobel peace prize winner and concentration camp survivor, has turned down an appointment to the executive board of Switzerland's special fund for Holocaust survivors. In a letter to the Swiss government, Mr Wiesel said be had decided not to take up the appointment since it was "never his role to measure or quantify the suffering of others". His decision will delay the start of operations of the SFr265m ($180m) fund and is a further setback for Switzerland's efforts to repair its strained relations with the world Jewish community over its treatment of Jews and their bank accounts during and after the second world war.

Mr Wiesel was nominated to the board on May 1 on the recommendation of the World Jewish Restitution Organisation. Jewish groups had wanted him to head the fund. *William Hall, Zurich*

Fines for cable suppliers

Germany's cartel office is poised to announce fines totalling DM260m ($150m) on a group of cable suppliers for illegal price fixing, according to officials in Bonn.

The fines would be among the heaviest ever imposed by the Berlin-based watchdog. According to unconfirmed reports, subsidiaries of Alcatel and Siemens are among the companies to be penalised. *Peter Norman, Bonn*

Spanish prosecutions court controversy

Attorney-general sacked, banker forbidden to leave the country. . . David White reports

The abrupt dismissal on Friday of Spain's attorney-general, Mr Juan Ortiz Urculo, appointed by the centre-right government only last summer, is a symptom of a malaise at the heart of Spain's justice system.

The decision was the cabinet's belated response to open hostilities in the ranks of state prosecutors, particularly in the National Court in Madrid, scene of many high-profile cases and some bizarre developments.

One figure clearly mystified by the workings of legal inquiries is Mr Carlos March, chairman of tha bank that carries his family name and grandson of Spain's nearest equivalent to a Rockefeller. To his great surprise and the dismay of fellow bankers, an investigating judge last week barred him from leaving the country without his permission.

The move – nothing to do with banking, but related to the more politically charged subject of television – is the latest twist in a series of murky episodes that could be the material of a TV soap opera about the legal profession.

One peculiarity of Spain's legal system is the private prosecution, a criminal case brought by individuals if they can persuade a judge to take it up. National Court investigating jndges have wide power to take their own initiatives. This particular case, initiated by a controversial lawyer, is against Sogecable, the company that runs Spain's Canal Plus pay-telavision channal, and linked to the French network of the same name.

It has political overtones, as it coincides with a bitter battle over digital TV between the government and Sogecable, which has its own satellite venture already in operation and is fighting regulatory conditions laid down at the mast minute by the administration.

Tha allegation is that Canal Plus financed its original pay-TV business improperly by using deposits paid by its 1.4m subscribers. These involva a Pta9,000 ($62) registration fee and a refundable Pta6,000 on the decoder, in addition to regular subscriptions. Mr March is on Sogecable's board.

Tba National Court jndge, Mr Javier Gómez de Liaño, had already limited the movements of Sogecable's chairman, Mr Jesûs de Polanco, and two top executives. But then on Thursday an appeal chamber at the court overruled these orders as "arbitrary", "disproportionate" and "without legal basis". The order against Mr March remains, however.

Meanwhile, the judge's elder brother, Mr Mariano Gómez de Liaño, is also featuring at the National Court, in a different capacity. A lawyer and associate of the disgraced financier Mr Mario Conde, be faces fraud charges in the case ovar management of the Banesto banking group, in which the Bank of Spain intervened in 1993. He also defended Mr Conda in a recent related trial, wben the ex-banker was sentenced to six years' jail, pending appeal.

In the background has been the commotion among senior prosecutors, some of whom have been accused of irregular behaviour. Friday's sacking of Mr Ortiz Urculo as sttorney-general was an attempt to restore order. His planned replacement, Mr Jesûs Cardenal, is a respected legal figure, albeit of arch-conservative views, who is being moved to Madrid from the Basque region.

At the same time, the justice ministry eccepted Mr Ortiz Urculo's recommendation to transfer one of the National Court prosecutors, Ms María Dolores Márquez de Prado, whom he criticised for being "acerbic" and committing "excasses", to another post.

It also happens that Ms Márquez de Prado has for soma time been linked sentimentally with Mr Gómez de Liaño, the judge.

The controversy has brought heavy pressure on tha justice minister, Ms Margarita Mariscal de Gante, whose performance has been attacked by the opposition leader, Mr Felipe González, as being "of an astounding uselessness".

Legal experts say the nub of the problem lies in the institution of the National Court itself. Set up after the Franco era, initially as a place where terrorists could be tried, it filled a gap left by the abolition of the notorious Public Order Tribunal – where Ms Mariscal's father, incidentally, was a judge.

Already last December, a majority of Spaniards polled by the government's Centre for Sociological Research thought the goings-on at the National Court were leading to a loss of public confidence in justice. That now seems an understatement.

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LEGAL NOTICES

No. 002061/1997

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF FAIRPLACE CONSULTING LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 23 April 1997 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the Share Premium Account of the above-named Company from £1,081,782 to £581,782.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 21st day of May 1997.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 12th day of May 1997
Biddle & Co., 1 Gresham Street, LONDON EC2V 7BU Ref: 118/139

Job worries in Japanese finance

By Gillian Tett in Tokyo

Japanese securities companies bave slashed their staff numbers by over a quarter during the past five years, as competition has eroded their business, a survey has shown.

The numbers employed in the sector fell almost 30 per cent in the five years to September 1996, with some medium-aized companies sucb as Cosmo, Daiichi and Kokusai aeeing cuts of over 40 per cent, according to a survey by Nikkei newspaper.

The reductions are a striking indication of the financial pressure that has dogged Japan's securities industry since the collapse of the 1980s bubble – not least because Japanese institutions have traditionally been reluctant openly to sbed staff.

However, Japanese hanks, by contrast, harely reduced their staff at all in the period – in spite of the fact that tbe banking sector fell into a large loss last year as a result of widespread loan difficulties, and is set to face further severe pressures this year ahead of the planned financial deregulation, or Big Bang.

Consequently, the discrepancy is likely to fuel expectations that financial deregulation and growing competition could either lead to new job losses among Japan's giant banking industry, or leave lt far less competitive than foreign rivals.

And in recent weeks the ailing Nippon Credit Bank has become one the first large Japanese banks to indicate aeriously that it hopes to cut staff numbers – by about 30 per cent – as part of its recently announced restructuring plans.

Mr Naotaka Saekl, newly appointed bead of Japan's banking federation and president of Sanwa Bank, insisted last week there was little immediate likelihood of mass ataff reductions among tbe banks yet. "I do not think that firing lots of people is inevitable," he said, adding that that big banks would be able to survive the Big Bang reforms by expanding into new areas of business.

In particular, be suggested, the planned removal of barriers between securities businesses and banking businesses abould ensure that banks could find new profit sources by moving into the securities industry.

Nevertheless, he added that this process would force many Japanese banks to become far more specialised – and admitted that Big Bang would also usher in more foreign competition. "Big Bang means the total opening up of the market... The situation is that foreigners will come to Tokyo," said Mr Saeki, who added that it was "a possibility" that Japanese financial companies might also be bought by foreigners.

Dateline Tokyo: Neighbourhood police, Page 7

Saeki: no mass sackings in view

India 'keen' to boost South Asia trade ties

By Mark Nicholson in New Delhi

india is "very keen to take an initiative" to accelerate moves towards creating a full free-trade zone among the seven nations of South Asia within the next three years, Mr I.K. Gujral, india's prime minister, said on the eve of a two-day summit of the South Asian Association of Regional Co-operation (Saarc).

Mr Gujral, in an interview, indicated that india was willing to offer its six neigbbours greater trade concessions at the meeting in Male, capital of the Maldives.

Mr Gujral, wbo retained india's foreign ministry portfolio after taking over as india's prime minister last month, said be hoped to build on a recent "very big qualitative change" in regional relations, most notably a tentative recent rapprocbement between india and Pakistan, its chief regional rival.

Mr Gujral will today meet Mr Nawaz Sharif, his Pakistani counterpart, in tbe first prime ministerial meeting for four years between the two countries, whicb have fought three wars since independence in 1947. Talks between the two countries were revived at the level of officials only last month after a chilly three-year hiatus.

Officials from both sides have carefully played down the prospects of any tangible results from today's meeting, beyond a likely commitment to hold aubsequent discussions.

"Because of the deadlock the relations between Pakistan and India will have to be a process, it cannot be an event," said Mr Gujral, adding: "It is itself a good signal that we are willing to talk."

Frosty relations between India and Pakistan, chiefly impeded by bitter political differences over the troubled state of Jammu and Kashmir, have so far hindered any meaningful process of trade liberalisation within Saarc.

Trade among tbe seven nations (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives) today accounts for just 3 per cent of their total trade volumes and the states have so far made only slow and grudging progress towards implementing a South Asian Preferential Tariff Agreement, the intended precursor to a free-trade zone.

However, Mr Gujral last year revived prospects for the 12-year-old grouping by recasting India's foreign polIcy under what has now become known as tbe "Gujral doctrine": that India, as tbe region's dominant power, should be willing to grant its neighbours concessions without expecting reciprocity.

The approach helped lead India last year to conclude an historic water-sbaring agreement with Bangladesh, a similar accord with Nepal and a recent unilateral move to increase trade concessions for Sri Lanka.

Mr Gujral has also courted better relations with Pakistan, and bas so far found a sympathetic response from Mr Sharif, whose landslide election victory earlier this year has made him one of the country's most powerful prime ministers.

However, progress in talks between Delhi and Islamabad will hinge on whether the two aldes can find a means of dealing with the Kashmir issue.

Pakistan insists it cannot discuss other bilateral issues unless "meaningful progress" is made over Kashmir – insisting India ablde by a series of UN resolutions which call, among other things, for a plebiscite in the Indian-controlled territory.

India, which accuses Pakistan of backing an insurgency in Kashmir which has cost 20,000 lives slnce 1989, firmly resists sucb a move and argues instead tbat the two sldes should rsther embark on talks in other areas, including trade, visas and confidence-building measures.

HK Democrats plan legal challenge

By John Ridding in Hong Kong

Hong Kong's Democratic party plans to take legal action against the territory's China-backed legislature after it passed its first law on Saturday, a senior party official said yesterday. "It is definitely our will to proceed with a legal cballenge, and we are examining the technicalities," said Mr Anthony Cheung, vice-chairman.

The threat from the Democrats raises the prospect of a legal showdown over the provlsional legislature before the transfer of sovereignty on July 1. Mr Cheung said tbe party did not recognise the provisional legislature, which will replace the existing Legislative Council at the handover, and the passage of a law breached Beijiog's promise that there would not be parallel legislatures during the transition.

Saturday's session completed the third reading of a bill on puhlic holidaya. According to tbe of the provisional legislature, which was selected by s 400-member committee, laws must be read and passed three times and then undergo a confirmation process immediately after the handover.

A challenge by the Democrats on the public holidays bill could mark the first of a series of legal confrontations. in this case, the challenge may be aimed at the timing of the legislation rather than the provisional legislature itself. "It is not the nature of the law that is the problem. it is the fact that the provisional legislature is acting before July," said Mr Cheung.

Ms Rita Fan, president of the provisional legislature, dismissed the challenge from the Democrats, arguing that tha legislature was empowered to pass legislation to be effective on July 1. "All along we have been advised hy our legal adviser," said Ms Fan. "We've been assured all we have done is within tbe law."

The Democrats have signalled they will also launcb a more fundamental cballenge to the provisional legislature, which they argue has no foundation in the Basic Law, the constitution for post-handover Hong Kong. A possible trigger for this challenge are lawa on clvil liberties, expected to be announced this week.

Initial proposala for the laws included a tightening of police controls over demonstrations and stronger regulations concerning the registration and funding of political parties. Although the government in waiting has signalled lt might make concessions on areas of the legislation, the Democrats have indicated tbey will challenge the laws in the courts after the handover.

In the mammoth's shadow, Page 15

Eerie silence before the Australian budget

The first budget presented by Australia's new conservative federal government last August prompted protests by public servants, students and Aboriginal groups.

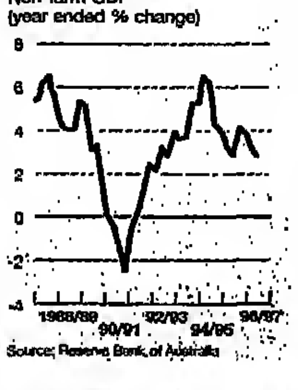
The second, to be delivered tomorrow, looks like being a more harmonious affair. Mr Peter Costello, the federal treasurer, has indicated the budgetary savings being sought are "nowhere near" the A$8bn (US$6.2bn) worth announced last August for tbe 1996-97 and 1997-98 financial years.

The last budget was preceded by a spate of leaks, as ministers tried to soften the impending blow. This time, aside from a few weekend stories relating to child-care allowances, the silence has been almost eerie.

This muted backdrop does not reflect a great sbift in the economy itself. Australia's growth rate stalled after the March federal election last year. By late 1996, growtb was little more than 2 per cent on an annualised basis.

in recent months, there bave been signs of a pick-up, spurred by three interest rate cuts in the latter half of 1996. But business leaders and economists are united in describing tbe improvement as "patchy". A business survey published today by National Australia Bank, the country's largest commercial bank, suggests the underlying pace of annual growth is only 2.5-3 per cent.

Nevertheless, most private sector economists think matters will improve further in the coming montbs and many believe growth could reacb 4 per cent by late-1997.



The Reserve Bank seems to agree. "The lower interest rates now in place should be supportlve of interest-sensitive areas of activity... Other factors favourable to growth at present include the strong US economy, moderately rising commodity prices and a historically good level of business profitability in many industries," it said last week.

The budget numbers themselves, meanwhile, will benefit from last year's rigour. Most analysts expect tbe "underlying" deficit (before privatisation proceeds) in 1996-97 to be around A$8bn-A$8.5bn, or about 1.7 per cent of gross domestic product. This would be significantly bigher than the A$5.6bn forecast in August, largely because of a sbortfall in company tax receipts already advised by the treasurer.

But, as the August budget measures feed through and higher growth kicks in, analysts say the "underlying" deficit should still dip to around A$3bn in 1997-98 and perhaps A$1.5bn in 1998-99.

If these numbers are correct, Mr Costello will have plenty of room for manoeuvre. "We think the strategy will be based on consolidation around the previous cuts," says Mr Bill Shields, chief economist at Macquarie Bank, for instance.

That, says Mr David Bassanese, senior economist at Bankers Trust Australia, might mean additional savings of about A$2bn in tbe budget. Cuts of this order should allow the government to achieve an underlying surplus by 1998-99.

The betting is on a range of small measures, some probably dressed up as tax reform, to achieve this goal. But for once the "headline" balance may be of as much interest as the "underlying" numbers, as privatisation proceeds begin to swell the federal coffers.

The government has already said tbat A$3.3bn raised last week from selling three airports will be received in the next financial year. Add in an instalment due from the sale of lts remaining stake in Commonwealth Bank and possible proceeds from the partial privatisation of Telstra, and Mr Shields thinks that asset sale proceeds in 1997-98 could exceed A$13bn.

If so, the beadline budget surplus for 1997-98 could amount to A$11bn-plus.

Numbers of that magnitude would mean a federal government zero net borrowing requirement next year, and have big implications for the country's fast-evolving capital markets.

Nikki Tait

Asian Development Bank meets in Fukuoka, Japan. **Peter Montagnon** reports

ADB targets private project finance

The Asian Development Bank has launched a concerted campaign to finance more projects jointly with private capital markets with a target of tripling such outside contributions to $1bn this year.

Mr Richard Wads, its senior official in charge of co-financing, said the bank wanted to increase the leverage on its own resources, especially in private sector projects where its lending is restricted by charter.

Where co-financing has previously brought in an extra 50 cents for each dollar lent by the bank, the ratio should now rise to 70 cents. Most ADB co-financing has hitherto involved other official lenders such as aid and export credit agencies. Its new drive reflects a worldwide push hy governments to encourage private sector infrastructure development in the developing world.

Among ADB projects for whicb private finance will be sought in coming months is a $750m coal-fired project in China's Fujian province sponsored by tbe Lippo group of Indonesia and Bechtel Enterprises of tbe US, Mr Wada said.

Hiroshi Mitsuzuka, Japan's finance minister, addressing the ADB meeting yesterday Reuter

Details are also being finalised on a $700m power transmission project ln Pakistan ln which tbe National Grid and Midlands Electricity, both of the UK, will be the main investors; Britain's Export Credits Guarantee Department will provide $250m of guarantees.

A $373m cement works project in Vietnam, sponsored by Vietnam National Cement, Nihon Cement and Mitsubishi Materials, is on the list, as well as a $630m power project near Calcutta in which BHP of Australia and AIG, the US insurance company, are sponsors.

The ADB would invest some capital and a loan large enough to attract support from international banks and bond investors in these projects.

It has also increased its participation in venture capital funds for Asia, mainly to provide equity for infrastructure development. Late last year it was involved in the launch of such a fund by Calpers, tbe Californian state pension fund.

Now lt is setting up a fund with Prudential, the US insurance company, to provide so-called mezzanine capltal, or subordinated debt, which will lower the risk to outside lenders in private sector infrastructure projects. Between them the two organisations are putting up $100m, though tbey hope to attract other contributions for a total of $500m.

Mr Wada said ADB private market co-financing would most likely take the form of bank lending, as this was currently more attractive than bond finance. Private lenders could subscribe to a loan on the same preferred status as the ADB.

A second option is a guarantee to enable the msturity of the loan to be exteoded. A third is a separate guarantee to protect lenders against specific political risks such as unplanned tariff changes and expropriation.

The mechanisms are like those used by the International Finance Corporation, private sector financing arm of the World Bank, which is also involved in the Chinese and Vietnamese projects.

The ADB's initiative could increase the financing available for private sector projects, but the bank has calculated that, at best, only 20 per cent of Asia's huge infrastructure needs can be financed by the private sector. "Even if we go full blast, it'll only make a small dent in terms of total requirements," Mr Wada said.

Editorial comment, Page 15; Fukuoka Survey, Separate Section

Mekong project comes under fire

The Asian Development Bank's flagship plan to develop the greater Mekong region of soutb-east Asia has come under sharp criticism from environmental lohbies whicb accuse it of being biased towards bydropower.

Under the Mekong plan, which is supposed to raise growth and living standards in a wide area encompassing Laos, Cambodia, Burma, Thailand, Vietnam and China's Yunnan province, the ADB aims to belp orcbestrate the provision of part of the $40bn in infrastructure finance it says will be needed over the next decade.

But environmental groups said it had relied tco beavily on a feasibility study from Norconsult, a Norwegian consultancy group whicb bas close links to hydropower manufacturers.

The ADB, which has put $150m into Mekong hydropower projects since 1984, was "unquestioningly" implementing Norconsult's recommendations, said Ms Aviva lmhof from tbe California-based International Rivers network. "One of our serious concerns is the conflict of interest in the employment of a bydropower company."

The projects would affect fisheries, agriculture, waterflow and agriculture, which would bave a substantial impact on tbe livelihood of local people who had not been properly consulted. The aim was to generate power for export to Thailand which could satisfy its needs througb greater efficiency and could use natural gas to generate power witb less ecological damage, said Ms lmhof, who was joined by lobby groups from Japan and Cambodia in ber protest.

"Laos is a one-party state," added Mr Satoru Matsumoto, a Japanese lobbyist. "It's extremely dangerous for local residents to say No to a dam that the government has decided to go ahead with."

Mr Bindu Lohani, ADB'a bead of environmental issues, denied the Mekong plan had an undue overall emphasis on hydropower, which was a focus only in some of the countries involved. The bank looked carefully at environmental effects of dams, he said, but be acknowledged it could do more to persuade governments to consult people affected by the projects.

Pooling energy resources on a regional basis is more efficient and less damaging to the environment than country-based, self-sufficiency approaches, the bank said in a statement.

Report urges better government

Asia's sometimes authoritarian governments need to become more democratic if the region is to secure continuing growth and quality of life for its citizens during the next 30 years, according to a report published hy the Asian Development Bank at its annual meeting in Japan.

"Asla's increasingly complex economies cannot be managed from the centre alone, and their increasingly pluralist societies will not be content witb top-down government," the bank's Report on Emerging Asia said.

The report does not formally represent the views of the hank itself, hut rather of the outside team of economists called in to write it. Yet officials aaid that the sentiments were in line witb the bank's vlew that good government was a pre-requisite for sustained development.

Setting out the conditions under which Asia could maintain its high growth record, tbe report said another cballenge facing Asian governments over coming decades was to tread a delicate line between fiscal responsibility and demands from a more affluent public for better health, education, welfare and for a better quality of the environment.

This could only be achieved hy a new relationship between government and the private aector. "Mutual trust and dialogue must replace suspicioo and diktat. Greater opeoness and disclosure is also needed to ensure that the interests of regulated enterprises do not take precedence over those of the communities thev are intended to serve," the report said.

"Asia has to adapt to a twin-track approacb, tbe first track stressing growth and globalisation and the aecond stressing buman development and civil rights," Mr P. Chidambaram, India'a finance minister, told a seminar to mark the report's launch.

The report is generally optimistic about Asia'a economic prospects, though lt says growth may taper off in the newly industrialised economies of east Asia as their populations age. By contrast south Asia, which has lagged hitberto, could see growth accelerate given deregulation wbicb would make its economies more competitive and the advantage of a dynamic young population.

But this assumes governments can rise to the challenges raised by a more affluent and demanding population, particularly on the environment. "The point may not be too far off when Asia's polluted environment will act as a brake on its growth," it said. Of the world's 15 most polluted cities, 13 are in Asia.

Government monopolies over drinking water, sewerage and clean air cannot generate the right response, the report said. Instead it called for the private sector to provide tbe necessary environmental infrastructure and contribute to the conservation and management of natural resources. The role of governments in setting environmental priorities and enforcing them should be strengthened.

NEWS: INTERNATIONAL

S Africa turns to private sector for jails

By Roger Matthews in Johannesburg

The South African government is set to make its biggest breakthrough in relations with the private sector since the African National Congress took power three years ago.

Tender documents will be released shortly asking companies to bid for the financing, construction and operation of seven prisons at an estimated cost of over R1.5bn ($337m).

If the project is successful it is likely to be the first of many, and could allow the government to withdraw completely from financing further construction.

The contracts will put South Africa among the world leaders in privatising prisons, and could be the first of many infrastructure developments in other sectors, especially transport, to attract foreign bidders.

South Africa's prisons were severely overcrowded when the ANC took office and numbers have since been rising by about 10,000 a year.

Escapes are endemic, with an average of over 100 prisoners, from petty thieves to murderers, breaking free each month.

Group 4 of the UK is likely to be among those bidding to build and run seven new prisons in South Africa

The prison population hit 125,000 at the end of December, is now 134,000, and is expected to reach 147,000 by the end of next year.

Current facilities in 253 jails allow for a maximum of 97,000 prisoners, and the total staff level of 30,000 is 8,000 below requirements.

The rising prison population reflects South Africa's world leadership in several categories of crime, particularly murder, rape and armed car hijackings. Public anger at the relatively low levels of arrests and convictions is also mounting and has led to calls for a state of emergency.

Mr Sipo Mzimela, the correctional services minister, said the prison building programme anticipated greater police success, and viewed the seven new prisons, with their 10,000 population, as "a drop in the ocean". In the longer term he was looking for 50,000 more prison spaces at a cost of up to R12bn.

"This is a great opportunity for foreign and local companiee because their returns are guaranteed by the government," Mr Mzimela said.

The companies will have to finance, design and operate the new jails, and commit themselves to an agreed programme of bealth care, hygiene, and rehabilitation. Revenue will come from a fixed daily payment per prisoner.

Mr Goltz Wessmann, special adviser to the minister, said the daily per capita cost to the government of keeping prisoners was R68. Companies would also have to train staff, and not poacb existing prison officers. "We do not intend to end up competing against ourselves," he said. "We also do not expect there to be any escapes, and operating companies will be penalised should any occur."

The performance of companies will be monitored by prison inspectors, headed by a judge, and provision made for the suspension of the contract if conditions fall below set standards.

Mr Wessmann said every international company involved in the custodial business was interested in the Sonth African project "because it is probably the biggest there is in the world".

Among those likely to bid are Group 4 and Premier Prison Services from the UK, Wackenhut from the US, and companies from Australia, Canada and Taiwan. They will be expected to form partnerships with Soutb African companies. The first contract could be awarded at the end of September, with work starting immediately afterwards.

Mr Mzimela said he bad been appalled by conditions in many South African jails. "On my first tour of inspection I was so shocked I ordered several to be closed. I said I did not care where the prisoners went, so long as they were taken out of those jails.

"Soon after that I started talking about getting the private sector involved, because I was convinced we would never have the money to do what was necessary. But it was a new concept, and initially people did not know what I was talking about."

But with 80 per cent of the minister's budget swallowed by salaries, and much of the rest going on other operating expenses, tha ideological opposition to wbat some members of the ANC viewed as privatisation began to evaporate.

"We have had absolutely no problems with the unions on this," said Mr Mzimela. "And people understand that if a serious programme of rehabilitation is to be introduced we must have the space and facilities to carry it out."

He has also demilitarised the prison service. "It was in effect a military department, Afrikaans was the only language used, and its primary purpose was to enforce strict discipline. Prisoners could not ask questions and warders relied on force."

Two of the new prisons would be "super maximum security" with prisoners locked in their cells for 23 bours a day. Mr Mzimela was also investigating the possible purchase of prison ehips, and converting disused mining facilities.

Cuba sees US hand behind insect plague

Claims of biological warfare against food crops reach UN. **Pascal Fletcher** reports from Havana

The long and mntually venomous dispute between Cuba and the US has spawned numerous allegations and counter-allegations, some more bizarre and exotic than others, over the last 35 years.

In their latest exchange, Havana has formally accused the US government at the United Nations of carrying out a "biological attack" against the communist-ruled island by releasing a plague of tiny, juice-sucking bugs that are now reportedly ravaging food crops in three Cuban provinces.

Washington last week denied the Cuban charges as "outrageous" and "deliberate disinformation".

Cuba is presenting the incident as another example of a campaign of hostility and dirty tricks waged against it by the "imperialist" US, a campaign which has included in tha past the 1961 Bay of Pigs invasion and assassination plots against President Fidel Castro.

But sceptics suggest the latest accusation could be an attempt by the Cuban government to justify possible summer food shortages resulting from an unseasonal drought and struggling farm production.

Cuba's communist rulers have certainly found the US a convenient scapegoat for misfortune in the past. The "Yankee imperialists" have been previously blamed by Havana for crop and animal diseases such as blue mould and swine fever, and even human illnesses such as haemorrhagic dengue fever.

In a statement publisbed this week, Cnba said a crop duster aircraft used by the US State Department for anti-drugs operations repeatedly released a "white or greyish clond of unknown substances" while flying 10,000 feet above Cuba last October. The emission was seen by tha pilot of a nearby Cuban paasenger aircraft.

The Cuban accusation, presented to Mr Kofi Annan, United Nations secretary general, in March said the incident preceded the "strange and auspicious" appearance two months later in Matanzas province, beneath the US aircraft'a route, of an insect pest known as *Thrips palmi Karay*. This is present in other Caribbean countries but has previonely been unrecorded in Cuba.

"Cuba has once again been the victim of a biological attack," the Cuban government said, adding that its investigations allowed it to reach this conclusion "with a high degree of certainty". The tiny, millimetre-long insects had affected vegetable crops in three provinces, Havana said.

Not surprisingly, the US version of the October flight differs from the Cuban story. Washington said the US "narcotics crop eradication" aircraft was en route to Colombia and had obtained clearance to fly over Cuba.

The US statement said the crop duster pilot, noting the proximity of the Cuban airliner, "followed prudent and safe aviation procedures by marking his aircraft's location with smoke" using his aircraft's smoke generator.

Mr Jim Pollard, a UN Food and Agriculture Organisation plant protection expert, visited Cuba in April after Cuba requested FAO help in dealing with the *Thrips* outbreak. He confirmed the presence of the insect pest, which can affect such crops as potatoes, tomatoes and beans.

But Mr Pollard said it was "very difficult" to pinpoint with certainty the origin of new infestations. The *Thrips* pest, originally from Asia, had arrived in the Caribbean 10 years ago and could be found in most of the region, he added. He did not want to comment on the specific Cuban accusation.

INTERNATIONAL NEWS DIGEST

Iran quake toll at 2,400

The death toll from Iran's earthquake rose to nearly 2,400 yesterday, according to reports from the Iranian news agency, IRNA.

The number of injured was 6,000, it said in a report from Mashhad, capital of the quake-stricken north-eastern province of Khorasan. Mr Ali Mohammed Besharati, interior minister, said in Tehran that initial estimates put the extent of destruction in tha most beavily damaged cities of Qaen and Birjan in eastern Iran at IR200bn ($67m).

A United Nations official flew to the scene to assess damage and to report on aid needed to cope with the aftermath of the earthquake, which registered 7.1 on the Richter scale. Tehran radio said the quake – Iran's worst since 1990 when about 35,000 died – hit 200 villages, destroying some of them totally. *Reuter, Qaen*

CVRD consortium lays plans

The winning consortium in the first stage in the privatisation of Companhia Vale do Rio Doce (CVRD), the world's largest iron ore miner, meets for the first time today to discuss the composition of CVRD's board of directors and the company's management team.

A 41.7 per cent stake of voting shares was transferred to a consortium led by Companhia Siderurgica Nacional (CSN), the Brazilian steelmaker, at the Rio de Janeiro stock exchange last week after the final injunction suspending the sale of shares in the company was overturned in a Rio de Janeiro court.

The consortium paid R$3.34bn (US$3.14bn) for the shares, after outbidding a group co-led by Anglo American of South Africa and Grupo Votorantim of Brazil at an auction last Tuesday. The other members of the winning consortium are NationsBank of the US, Opportunity Asset Management, an investment fund and four Brazilian pension funds. *Geoff Dyer, São Paulo*

Mediterranean nations gather

The World Bank Economic Development Institute today brings together more than 400 policymakers, experts and representatives from private sector and non-governmental organisations from Mediterranean developing nations in a week-long conferenca in Marrakesh to encourage regional discussion of development issues.

The Mediterranean Development Forum, co-sponsored by the Moroccan government, is part of the World Bank's effort to expand its role in the Middle East and North Africa, an area where it has played an important part in promoting economic liberalisation.

The forum will address the challenges of the Euro-Mediterranean partnership agreements signed or being negotiated between the European Union and southern Mediterranean countries and consider ways to attract investment. *Roula Khalaf, London*

Deadlock dismays Israelis

Israelis are dismayed by the deadlocked state of the peace process, according to an opinion poll published yesterday. The poll by Tel Aviv University said 71 per cent of Israeli Jews considered the peace process was temporarily stalled while 22 per cent said it had "ceased altogether". Some 82 per cent were "concerned or very concerned" at the state of the peace process. *Avi Machlis, Jerusalem*

Road hauliers to be invited to send lorries free of charge when fire-damaged tracks reopen

Eurotunnel plans freight experiment

By Charles Batchelor, Transport Correspondent

Eurotunnel plans to start an experimental freight shuttle service through the Channel tunnel between England and France for the first time in six months when the fire-damaged south tunnel is reopened on Wednesday.

Road hauliers will be invited to send their lorries through the tunnel free of charge pending the start of a commercial service in mid-June.

The resumption of freight shuttles depends on the Anglo-French safety authority approving the use of the open lattice design for truck carriers. The design has been condemned by the UK fire service.

But Eurotunnel is confident that with its own improvements to the shuttle design – which are less radical than those called for by the UK fire service – and new safety procedures unveiled at the beginning of last month, the safety authority will give the go-ahead for services to resume.

Repairs to the damaged tunnel have been going on since the fire aboard a Calais-Folkestone shuttle on November 18. Limited passenger shuttle services, Eurostar trains and long-distance freight services have been run, but the cost of repairs and lost revenues has been put at just over £200m ($324m).

Passenger numbers have recovered since the fire, though the nearly 144,000 cars carried in April were down on the 154,500 carried in the same month of 1996.

But Eurostar passenger numbers rose from 405,000 to 486,000 over the year while freight volumes rose from 179,000 tonnes to 242,000 tonnes.

Eurotunnel'e proposals for improving safety include stopping trains as soon as a fire is discovered rather than attempting to drive them out, installing water sprinklers and providing smoke hoods for truck drivers and train crews.

There will be more thorough checks of lorries and departing trains, and fire monitoring teams will sit alongside the train control staff, allowing better co-ordination.

Transponders will be installed on trains to identify their location more closely and the retractable supports used to steady shuttle wagons during loading will be removed.

Indications that a support had been accidently lowered led to the burning train being halted in the tunnel.

The relaunch of freight shuttle services is intended to reassure shareholders and investors ahead of attempts to win their approval for a financial restructuring of the debt-laden company. Shareholders are due to vote on the restructuring at an extraordinary meeting in July, while the full syndicate of 225 banks will consider the plan before the end of the year.

The restructuring would involve converting abont £4bn of the company's £8.5bn of debt into shares. The banks could end up with between 45.5 per cent and 60.6 per cent of the enlarged equity. However, shareholder groups have threatened to campaign against the deal.

Work-time directive signals radical change

By Andrew Bolger, Employment Correspondent

Implementation of the European Union working time directive is likely to be the catalyst for a radical overhaul of British working patterns, according to a study by Warwick Business School's industrial relations research unit.

The Department of Trade and Industry said yesterday it was "a bit early" for the government to say how it planned to implement the directive, which was unsuccessfully challenged last year by the Conservative government at the European Court of Justice.

However, the directive seems certain to be enacted through statutory instruments rather than primary legislation, which would take up time in Labour'e crowded first parliamentary programme.

The directive gives all employees – except those in sectors such as transport and the offshore oil industry – the right to refuse to work more than an average 48-hour week, and lays down the length of rest periods and rules for night working. Employees will also have three weeks' paid annual holiday, rising to four weeks in 1999. The Warwick study, published jointly with Industrial Relations Services, the employment research group, says attention had so far focused on the 48-hour week provision, with an estimated 3.5m employees now working longer.

However, it says the directive could have most immediate impact on annual holidays. "As many as 3m full-time employees enjoy less than the four weeks' annual leave which becomes the standard in 1999, and an additional 2.4m part-time employees probebly enjoy less than the pro-rata equivalent," the study says.

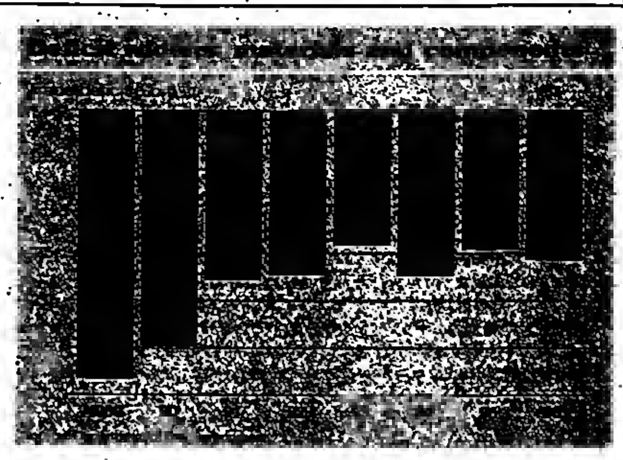
"Large numbers – 1.3m full-time and perhaps as many as 2m part-time employees – also have less than the 15 days (or the pro-rata equivalent) which is the entitlement governments can introduce as a three-year transitional measure."

The study says the directive could be "a blessing in disguise" if it encouraged employers to take the management of working time more seriously – in particular, the "long-standing problem of long hours in the UK". Rather than being used exceptionally, the study says overtime working is endemic in many organisations, with the main rationale being the maintenance of the regular weekly wage.

The report also says both management and unions need to consider the implications of the encouragement which the directive gives to to consultation and negotiation over working time.

Time for change? IRS, 18-20 Highbury Place, London N5 1QP. £90

Concern over growing imports



By Andrew Taylor, Construction Correspondent

Concern thet rising construction demand and e strong pound will lead to increased onports will have been heightened by government figures showing a surge in building material shipments last year.

The import bill for building materials, according to the environment department, rose by almost £400m to £5.39bn, increasing the sector's trade deficit by 8 per cent to £1.58bn.

The deficit, which had narrowed considerably after peaking at £2.84bn in 1989, rose in spite of a fall in the price of timber, which, including wood products, accounts for 30 per cent of industry imports.

A £279m rise in building material exports to £3.8bn was insufficient to prevent the deficit from increasing. Demand for private sector residential and commercial development has caused concern that the sector could face capacity constraints if activity rose too swiftly.

Construction output is forecast by the industry to rise at about 3 per cent per year until the turn of the century. Demand, it says, will be fuelled by lottery funds, millennium projects, the government's private finance initiative and increased domestic private sector investment. The government and industry sponsored Construction Procurement Group cautioned earlier this year thet plant closures and redundancies had left some suppliers ill-prepared to cope with big increases in demand.

Mr Malcolm Dodds, director of the CPG, said: "The trade deficit in building materials has narrowed considerably over the past decade, mainly as a result of domestic suppliers improving their competitiveness.

"This improvement could be eroded unless suppliers maintain their competitiveness in an increasingly global construction market. They will not have been helped by the rise in the value of sterling."

A concern to the CPG will be the rise in imports of higher value manufactured products. The deficit on air conditioning units more than doubled last year to £76.8m while the deficit on central heating boilers increased by almost 32 per cent to £104.2m.

Builders' ironmongery, such as doorknobs, hinges and other small items also had a trade deficit of £211.5m, emphasising the decline in Britain's ability to compete on a range of basic manufactured products.

Nails and screws had a deficit of £41m while the deficit on electric wires rose by 54 per cent to £88m. The deficit on decorative tiles, mostly imported from Italy and Spain, increased by 40 per cent to £159.6m.

A big improvemant occurred in structural steel which last year generated a trade surplus of £234.9m compared with a deficit of £27m in 1989.

Other trade surpluses last year included wall paper, £179.4m; paint and varnish, £94.5m; and ceramic and plastic sanitaryware, £65.2m.

UK NEWS DIGEST

Sinn Féin office risks security

Ministers were under pressure yesterday to seek a change in House of Commons rules after Sinn Féin, the political wing of the Irish Republican Army, made clear it would exploit a loophole in regulations to set up an office in parliament and use its other facilities. The prime minister's office said the allocation of office space to Mr Gerry Adams and Mr Martin McGuinness, who were elected by voters in Northern Ireland, was a matter for the Commons authorities. But government officials acknowledged the political and security implications of giving Sinn Féin unrestricted access to the Houses of Parliament while the IRA continues its terrorist campaign.

Sinn Féin confirmed Mr Adams and Mr McGuinness would not take the oath of allegiance to the Queen as MPs. The guide to parliamentary procedure says an elected representative who refuses to take the oath to the Speaker must not try to enter the Commons chamber. However, the individual is entitled to "all other privileges of a member, but not to his salary". *John Kampfner*

■ TRADE

Barriers 'impede small exporters'

The majority of small exporters are handicapped by indirect trade barriers, according to a survey by the British Chambers of Commerce. The study of 394 small companies says 54 per cent had encountered some form of trade barrier, ranging from tariffs and local taxes to unwieldy customs procedures and even bribery. The BCC has called on Sir David Simon, the minister for trade and competitiveness in Europe, to help small exporters overcome unfair trade barriers inside and outside the European Union. *Wolfgang Münchau*

■ MILLENNIUM 'BOMB'

Government to issue guidance

The government will today launch a six-volume set of guides designed to help British businesses deal with the Year 2000 computer crisis, the so-called "Millennium bomb" which experts predict will cause chaos because computer systems are not programmed to recognise dates beyond 1999.

The plans are believed to be the first ettempt by a government organisation anywhere in the world to provide detailed guidance on the issues. "The Year 2000 crisis presents the biggest challenge likely to face commercial and public sector organisations during the next few years," says the government's Central Computer and Telecommunications Agency. Some estimates suggest that up to 80 per cent of all computers and software may not cope with the date change. *Paul Taylor*

■ LLOYD'S

Investors urge rethink on capital

An influential group representing thousands of individual investors in Lloyd's is urging the insurance market to rethink its plans for substantially raising the levels of capital required to support underwriting. A formal response being drafted by the Association of Lloyd's Members to proposals published last month describes the suggested two-year period for introducing the changes as "wholly unrealistic". *Christopher Adams*

THIS WEEK

Cracks appear in the koban

DATELINE

Tokyo: The neighbourhood police have been slow to adapt to rising crime in one of the world's safest cities, writes William Dawkins

At the corner of the street where I live in Nishiazabu, central Tokyo, stands a compact but decreasingly effective engine of Japan's famed social stability.

A few yards from the takeaway sushi shop, the fortune teller and ersatz Belgian pub, can be found the neighbourhood koban or police box. It is a neat glass-fronted cubicle, identified by a gold star and inhabited day and night on a rotating shift.

The local omawari-san, or "honourable Mr Walkabout", is a mild mannered, usually helpful fellow. His jobs include giving maps and directions to the many taxi drivers who get lost in this section of Tokyo's ever-changing maze of nameless streets.

He will lend small amounts of cash to the odd tipsy salary man who lost his wallet or drank his money away in the Belgian pub. Needless to say, the money is always returned. Omawari-san has even been known to do a spot of baby-sitting.

He knows everything there is to know about his tiny beat, which like most koban districts is less than four kilometres square. So he should. On his distinctive white bicycle he visits almost everyone who lives in Nishiazabu or does business there twice a year.

Over a cup of green tea, he will hear complaints, gossip and pass on advice about crime prevention to all residents, from the people at Fuji Photo Film headquarters, the biggest building in the district, to the priests at the Buddhist monastery in the shadow of the Fuji tower.

This is a typical example of the 15,000 koban across Japan, widely seen as a factor in the country's unusually low crime rate, and as such recently imitated by police forces in several crime-ridden US cities including Washington and Baltimore. But is the miracle what it seems?

The koban system has been one of the two foundations of Japanese policing for centuries, having begun life in the 17th century street sentry posts, intended to protect locals from sword-wielding Samurai.

Today, 40 per cent of Japan's 220,000 policemen work in a koban. On the surface, their record looks enviable. In 1994, according to the most recent national police agency annual report, Japan had only two burglaries per 100,000 people, as against 238 in the US, 116 in the UK and 71 in Germany.

Contributing to the low crime rate has been the second foundation of Japanese policing: the omawari-san's bosses at police headquarters.

Community policemen are helped in their benevolent street peacekeeping mission by the public's knowledge that anyone who does happen to be foolish enough to put a foot wrong can expect tough treatment.

Suspects have few civil rights. Legally, the police can detain a suspected wrongdoer for up to 23 days without charge. One Tokyo magazine last year carried an account by a foreign stockbroker of how he was locked up for two weeks after losing his temper one night with a taxi driver who refused to pick him up, and denting the vehicle with his fist.

Once inside the station, interrogations are not recorded. According to one legal academic, just over 90 per cent of prosecutions are made on the basis of confessions signed in a police cell. No wonder then that the national police agency reports that on average just under 90 per cent of reported crimes are "cleared" in the sense that a culprit is identified.

Sometimes, a suitably humble and apologetic presumed culprit will be let off with a lecture. If not, those who get to court might as well plead guilty.

Japan's judges are loath to cross swords with state prosecutors. Trials can take a long time – up to 10 years – because of an overcrowded and slow moving court system, but the results are rarely in doubt. Close to 100 per cent of those charged by the public prosecutor are convicted, according to the justice ministry.

Like it or not, this mixture of friendly community policing with tough treatment of wrongdoers has, for most of the time, worked well.

And yet disturbing flaws have emerged in recent years. A look at recent trends, supported by one or two worrying anecdotes, shows Japan's crime deterrence record is weakening. The number of offences reported peaked at a post-second world war high of 1.8m in 1993, and declined only slightly to 1.78m in 1994, 9 per cent above the level in 1990. There were 1,279 murders in 1994, up 3.3 per cent over the previous four years, and 1.6m thefts, up 8 per cent. Embarrassingly, Tokyo metropolitan police have yet to catch the person who shot and nearly killed their own senior officer two years ago.

Before then, the metropolitan force was widely criticised for having failed to move against Aum Shinrikyo, the mystical cult which launched a poison gas attack on the Tokyo subway, despite the fact that Aum's sinister doings were well known.

At my own local level, Nishiazabu omawari-san has failed to catch a child molester who has been active for the past five years – despite the fact that the police have been supplied with a photograph by an aggrieved parent and showered with protests by the children's school.

Tokyo is still one of the world's safest cities. But what has changed, perhaps as a consequence of a long economic slowdown and rise in unemployment, is that safety can no longer be guaranteed. The police force, on the evidence of its own data, has not yet adapted to that fact.

FT GUIDE TO:

AIRLINE ALLIANCES

I booked a flight with Lufthansa recently and ended up flying with United Airlines. Is this a common occurrence?

Yes, and it will become even more common. Lufthansa and United have an alliance. This means they co-operate closely and encourage their passengers to travel on each other's flights. If you want to fly to a destination Lufthansa does not serve, it might suggest you fly there with United instead.

On Wednesday, Lufthansa, United, Scandinavian Airlines System (SAS), Air Canada and Thai Airways will announce a worldwide alliance. The five are expected to reveal extensive co-operation and a common logo.

Are other airlines doing the same?

Yes, there are dozens of airline alliances. KLM of the Netherlands has an alliance with Northwest of the US. Delta Air Lines of the US has alliances with Swissair, Austrian Airlines and Sabena of Belgium. British Airways has an alliance with Qantas. BA and American Airlines want to link up, creating one of the biggest alliances of all.

Is this what is known as code-sharing?

Code-sharing is when an airline puts its two-letter code on another carrier's flight and sells tickets on it. Many airlines have such arrangements. The alliances involving United, Delta and Northwest do share codes, but they go even further. They have anti-trust immunity from the US authorities which allows them to operate as if they were one airline.

Why do airlines want these alliances?

It is difficult to make money in the airline business. The cost of running aircraft is high and passengers constantly demand lower fares. Deregulation in the US and Europe has increased competition. The world's airlines saw total profits from their international scheduled services fall from \$5.2bn (£3.2bn) in 1995 to \$4bn last year – less than 3 per cent of their revenues.

By joining forces, airlines hope to cut costs through joint purchasing of supplies and perhaps even aircraft. They also hope to persuade passengers making connecting flights to move from one partner's aircraft to a flight operated by an ally, instead of travelling with a rival.

Why don't these airlines just merge?

That would happen in almost any other industry. But the US, the European Union and most other countries have rules preventing foreigners from buying majority stakes in their airlines.

BA and American announced their alliance nearly a year ago. Why is it taking so long?

It has run into strong opposition from other airlines which say BA and American will dominate traffic between the US and the UK, the world's busiest international routes. Regulators in Washington and Brussels are examining how many take-off and landing slots the two airlines should give up at London's Heathrow airport if their alliance is to go ahead. BA is prepared to cede some slots but insists it be allowed to sell them. Rival US airlines say they should have the slots for nothing. The European Commission supports the rivals: it says selling slots is illegal.

If the cost of this alliance proves too high, will BA walk away from it?

BA says it will. Some competitors are less sure. They believe the alliance will be so advantageous that BA and American will pay almost any price to secure it.

What alternatives do BA and American have?

They are both powerful airlines which would not go long without finding partners. One potential partner for BA might be Delta. The US airline does not have a UK partner as its alliance with Richard Branson's Virgin Atlantic has just ended.

Are these alliances good for consumers?

It depends who you talk to. The airlines say they are good for passengers because alliances provide a wider choice of destinations. They also co-ordinate their flight schedules and often operate from the same airport terminals, making life easier for passengers changing flights.

But Robert Crandall, chairman of American Airlines, claims the alliances are a fraud on consumers, who buy tickets on one airline and end up flying on another.

However he also says he has no choice in forming an alliance with BA because everyone else is forming them and his airline cannot afford to be left out.

Should airlines tell you when you book a ticket that you might be flying with one of their alliance partners instead?

The airlines say their staff are under strict instructions to tell customers that they will be flying on an alliance partner's aircraft. But judging from the letters and telephone calls the FT receives from its readers, airline staff sometimes forget.

Michael Skapinker

The Monday Profile: Brian Souter, Stagecoach

Innovator at the wheel

Brian Souter has been through a difficult three months. Running a bus company is not for the faint-hearted at the best of times and he is used to often robust criticism from his rivals and from the competition authorities.

But the brickbats which have been hurled in recent times have come from his customers; commuters on the South West Trains franchise, run by Souter's fast-expanding transport conglomerate, Stagecoach. They have suffered cancellations and delays because of a bungled redundancy scheme for train drivers – and they wrote in their hundreds to complain.

"We have always been associated with a good product," says the chairman and co-founder of a group which has been a star of the UK bus industry and which is now moving rapidly into continental Europe.

"But the last few weeks have been like swallowing poison. You are only as good as your last trick and our last trick was not very clever."

Faced with the prospect of a £1m fine if it failed to meet its performance targets in April – on top of a £900,000 penalty already paid for underperformance in February and March – SWT concentrated its efforts on getting services right. It heard from the government's franchising director on Thursday that it had avoided the fine.

But the problems with South West Trains, which covers south-west London and longer routes to Exeter, Portsmouth and Southampton, have dented Souter's reputation for efficient management by which he has built up his UK bus empire and his rail interests. They also wiped out much of the stock market premium which Stagecoach enjoyed over companies in its sector.

The cancellations occurred in the run-up to the general election, when the many critics of rail privatisation were looking for signs that it was going wrong. This explanation prompts the question: should Souter's managers not have been aware of this political dimension and devoted more attention to the detail of what for them was a new industry?

Despite the riches brought by the success of Stagecoach – his 15 per cent share in the company is worth £214m – Souter remains an untypical captain of industry.

He appears not to own a suit, turning up tieless to transport select committee hearings with his overnight clothes in a plastic bag.

The son of a bus conductor, Souter, 42, is an evangelical Christian who neither drinks nor smokes. He worked as a bus conductor to put himself through Strathclyde university before getting a job with accountants Arthur Andersen. Seeking independence, Souter and his older sister, Ann, set up Stagecoach in Perth in 1980.

The company grew rapidly through a series of acquisitions and was floated on the stock exchange in 1993 valued at £134m. It is currently worth just over £1.4bn.

Souter runs the company from a head office in Perth employing just 30 people and delegates decisions to local managers. Some City critics wonder if the group has not outgrown this devolved approach but Souter says he chooses good managers to run his businesses. "People are always looking to recruit our managers," he claims.

After creating what was at one stage the largest UK bus group, Souter turned to the rail industry. Despite bidding for all 25 passenger train franchises, Stagecoach won only two, though it later made a surprise offer for Porterbrook, which took it into the rolling stock leasing market.

"He is very early into good situations – buses, continental Europe and rail," says Nigel Davies, an analyst with stockbrokers Panmure Gordon.

Souter remains optimistic about turning round the seemingly inexorable decline of bus use in the UK and is an enthusiastic innovator.

"We have increased passenger numbers over the past three years by holding down fares while our competitors have increased theirs," he says. "We think we understand our market better than other people."

Stagecoach may see little further scope for acquisitions in the UK but it has great ambitions for continental Europe, in both bus and rail. It bought Swebus, Sweden's largest bus company, last September and it also owns a small Portuguese bus group.

In Sweden, Stagecoach last month launched an intercity express coach service which was two-thirds full within days.

"In Portugal we need to get the basics of bus operations right, while in Sweden we need to bring a 'zing' to what is already a professionally managed operation," he explains. "We have to get right the mix of bus and business skills."

At SWT this mix proved more difficult to attain than Souter and his managers expected. But if their past record is any guide, they will have learned the lesson that expansion into new areas needs to be carefully managed.

Charles Batchelor

Robert Chote · Economics Notebook

A far-reaching judgment

Clarke may have been over-optimistic about the trend growth rate

Britain's Labour government has set itself an "explicit objective" to increase the economy's long-term trend rate of growth. Perhaps fortunately for them, it will take years to assess whether this aim has been achieved – not least because we cannot be certain what trend rate Labour has inherited to begin with.

The objective is laudable nonetheless. Growth in national output ebbs and flows naturally with the economic cycle, but it is the performance that underlies these fluctuations which dictates long-term changes in people's living standards. This in turn depends largely on the structure of the economy rather than the short-term concerns of interest rate and budget policy.

Disentangling the trend from the cycle – let alone the statistical noise which is superimposed on them both – is no easy task. But policymakers need to reach some sort of judgment about the size of the trend growth rate. Otherwise it is impossible to assess how the amount of spare capacity in the economy is likely to evolve over the policy-making horizon, or to determine the underlying health of the government's finances. That way lie policy mistakes.

Kenneth Clarke, the Conservatives' former chancellor and would-be leader, concluded that the supply-side reforms of the 1980s increased the trend growth rate from 2.25 per cent to at least 2.5 per cent. This implies that the "potential" level of output which the economy can sustain without running into inflationary bottlenecks rises by 2.5 per cent a year. This estimate was incorporated formally for the first time in last November's Budget Red Book.

A recent study* by Manmohan Kumar, an economist at the International Monetary Fund, suggests that Clarke was over-optimistic. Under certain conditions, he believes that trend growth could hit 2.5 per cent – but it is not there yet.

Kumar argues that the structural reforms of the 1980s have improved growth in productivity – output per person employed – and lowered the unemployment rate which can be sustained without pushing up inflation. But the beneficial impact of these measures have been offset by shocks to the economy and macroeconomic instability.

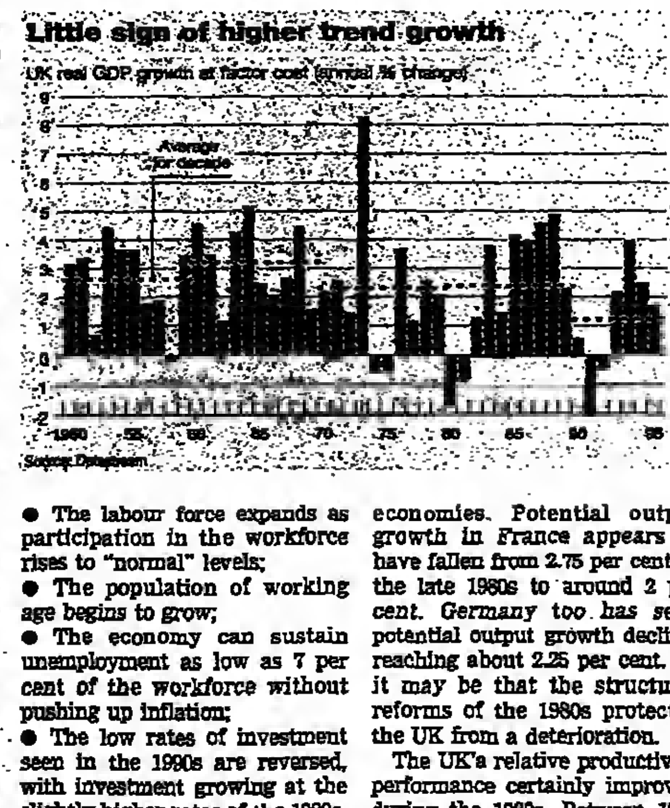
"So a measurable increase in potential output growth is not apparent in historical data," he concludes. There are various statistical techniques which economists have used to estimate trend growth. The numbers which emerge vary, but they point to broadly the same conclusion: trend growth dropped sharply from the second half of the 1960s to the 1970s, before increasing to at least 2.25 per cent in the 1980s. In the 1990s potential growth appeared to fall again, largely because the recession in the early part of the decade dominates the figures.

Kumar's calculations suggest that trend growth in the UK could be around 2.5 per cent if the following conditions are met:

- Total factor productivity – the efficiency with which inputs of labour and capital equipment are used – continues to grow at the same rate as in the 1980s;

Little sign of higher trend growth

UK real GDP growth at factor cost (annual % change)



Source: Datastream

- The labour force expands as participation in the workforce rises to "normal" levels;
- The population of working age begins to grow;
- The economy can sustain unemployment as low as 7 per cent of the workforce without pushing up inflation;
- The low rates of investment seen in the 1990s are reversed, with investment growing at the slightly higher rates of the 1980s.

"The evidence that the UK's potential growth rate has not increased over the last decade and a half may appear somewhat surprising," Kumar argues. "After all, the labour product and financial market reforms of the 1980s were supposed to lead to significant improvements in capital investment and productivity growth and push the economy to a higher growth path."

The UK's performance looks slightly less disappointing when compared to other big European economies. Potential output growth in France appears to have fallen from 2.75 per cent in the late 1980s to around 2 per cent. Germany too has seen potential output growth decline, reaching about 2.25 per cent. So it may be that the structural reforms of the 1980s protected the UK from a deterioration.

The UK's relative productivity performance certainly improved during the 1980s. Between 1960 and 1973 the UK had the weakest productivity growth in manufacturing of any Group of Seven leading industrial country bar the US and in the following five years it dropped right to the bottom of the table. But since 1979 the UK has recorded the strongest productivity growth of any G7 country bar Japan.

The structural reforms probably created an environment in which the UK was able to eat into the relative productivity advantage which other industrial countries had opened up in the 1970s. Reductions in trade union powers and the removal of restrictive work practices increased employment flexibility, promoted decentralised wage negotiation and strengthened links between pay and performance. Tougher competition encouraged efficiency-boosting measures, which the improved industrial relations climate allowed firms to implement.

Given the improvement in labour supply and productivity, poor macroeconomic policy probably explains why this has not been reflected in better trend growth. Since 1979 the UK has suffered two of the largest recessions suffered in G7 countries since the war, with one of the biggest booms intervening.

Labour will hope that its decision to grant the Bank of England control over interest rates might reduce this instability. This would encourage investment and thereby growth. Deep recessions also raise the level of unemployment which can be sustained without stirring up inflationary pressures in the labour market, although Labour's plan for a minimum wage might have the same effect if it is set at too high a level.

Gordon Brown, Clarke's successor, claimed during the election campaign that Labour's education and investment friendly policies would boost trend growth. This may be true, but in the space of five or 10 years it may only rise to the sort of level which the Conservatives believe they have already achieved.

**United Kingdom: Recent Economic Developments, IMF, 1996.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 11.05.1997 / Final Prices for Trading 13.04.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 12.05.1997 / Final Prices for Trading 14.04.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Out of the corporate soup

Tony Jackson examines radical views about the potential limits of outsourcing

How far can outsourcing go? There was a time when getting rid of technical operations such as information technology seemed revolutionary. Not any more. According to enthusiasts, functions close to the heart of an organisation, such as human resources, are going the same way.

Is the virtual company becoming the norm? The question can be taken a step further. In all kinds of industries companies are forming alliances – often informal – for all kinds of purposes. Within companies it is not unknown for equity to be created in specific projects for the benefit of the teams working on them.

Is outsourcing part of a wider movement, in which companies – including virtual ones – are breaking down into a kind of corporate soup?

Not necessarily. A great deal depends on the nature of the industry and the corporation itself. But let us step back to consider the views of the enthusiasts such as Richard Smith, head of outsourcing at Price Waterhouse, the accountancy firm.

The limits to outsourcing, Smith says, are set hy the readiness of management to be radical. The starting point is to decide what is your core activity. Everything else in the organisation can then be defined as support.

The question is how to minimise the cost of that support, subject to the usual caveats, such as quality and the risk of things going wrong. In particular, it must be decided whether support functions, from payroll to purchasing, are peculiar to the organisation or generic. If the latter, they are better handled hy a specialist.

In Smith's view, this is clearly the next step in the evolution of corporations. Take a company such as Unilever. Several decades ago Unilever aimed to capture all the value along its supply chain. It owned palm plantations in Africa, a shipping fleet to bring the oil to Europe, mills and factories to turn it into soap and margarine, and retail chains to sell it.

It gradually became obvious that the company did not have expertise in all those industries. Out went the plantations, the fleet, tha mills and the shops, leaving only the core activities of product manufacturing and brand management.

Today, Smith says, the same process is being applied across internal functions rather than industries. A good example is human resources.

Some parts of human resources, such as career development, cannot be trusted to outsiders. They represent, as Smith puts it, part of the soul of the company. But, says his Price Waterhouse colleagua Alan Little, take an aspect of human resources sucb as disciplinary problems. In practice, it turns out that 85 per cent of the solutions to these problems apply equally across industries and companies.

He draws an analogy with call centres. Experience shows, apparently, that only 15 per cent of telephone queries to the average company cannot be handled by frontline staff. It follows, Little says, that the other 85 per cent are better handled by a specialist, rather than by a sprinkling of average performers around the organisation.

The question then is how far you can boil down the definition of your core activity. Smith cites one of his clients, BP, as a radical example.

At one time, Smith says, BP worked on the premise that its expertise lay in finding oil. It is now asking whether its real specialisation might he striking agreements with host governments. In that case, even its geologists might turn out to be a mere commodity.

BP denies that it is thinking along such extreme lines. But it bas done some radical things in its time, such as the outsourcing to Arthur Andersen of the accounting activity for its North Sea operations about five years ago.

However, there is a paradox. BP does not only find oil and lift it. It ships it in its own tankers, refines it and sells it in its own retail outlets. It even runs vast complexas to convert the by-products into chemicals. The company which is cited as radical in its processes turns out to be profoundly old-fashioned in its business portfolio – like the Unilever of 20 years ago.

There is a further paradox. The idea that companies are dissolving into corporate soup is rather at odds with the fact that all those outsourced functions are being taken over hy a handful of operators: by Arthur Andersen, EDS and Price Waterhouse itself. These are hecoming corporata giants in their turn – a new hreed of full-service conglomerate.

There is an obvious conclusion. Companies may become hard to recognise as they swap business functions around. But they show remarkable durability as the preferred model for doing business.

Perhaps this should not surprise us. Companies are not merely the sum of their functions. They are also legal and social entities. There may be an element of time lag here, since legal frameworks are slow to evolve. But there is more to it than that.

The virtual company, after all, is scarcely a novelty. Many textile and shoe companies have worked that way for years. They design products and market them, but have long since stopped making them. The same applies to project engineers, shopping mall developers and all those who make a living organising the work of others.

Conversely, the BP example is a reminder that in some industries, the virtual model does not remotely apply. In others, it applies to a strictly limited extent. The carmakers still assemble cars, although many of them have long since outsourced their components.

In other words, it all depends. The outsourcing movement is alive and well. But so is the corporation, virtual or not.

Cole (left) and Paul: 'neither of us is like our stereotype'

PARTNERS

WSP

Chris Cole, 50, joined WSP as an engineer in 1972. Fifteen years later he became managing director. When the company floated on the USM in 1988 Malcolm Paul, 46, joined the board as financial director. WSP specialises in all aspects of engineering from design to construction. The annual turnover is £54m.

Malcolm: "When I first met Chris he was a client of mine, which meant fees. He wanted me to help him acquire equity before WSP went public so he was obviously ambitious.

Accountants don't mind helping clients who want to achieve something, but I eventually wanted to be in charge nf my own destiny. There is still a Monty Python image of the boring accountant which I've desperately tried to escape. It's the same for Chris with his engineering background, but instead of people thinking 'yawn yawn', they assume he's the guy in oily clothes carrying a spanner. It's interesting that neither of us is like our stereotype.

We've both learned enough about the other's suhject to repeat it to a third party and sound well-informed. I know a couple of buzzwords – like 'fan', 'coil' and 'vertical transportation', which is the engineer's term for a lift. Chris now knows about gearing – which he talks a lot about – and just about knows how to buy a company. I tell Chris I've only taught him the first chapter in case he gets too big for his boots.

He always wants things explained to the nth degree, which gets terribly wearing. I know instinctively whether something is right; he'll insist on reading the fine print.

I'm not the kind of accountant who makes an issue of being one penny out. I don't sit in the back counting the money while he's running around up front. It's been important to us that we've had equality from the start."

Chris: "It was Malcolm's idea to take tha company public. In a corporate arena we had the mechanism for growth which we couldn't have achieved in a partnership. It also gave us more money and the ability to exit in a responsible and timely manner.

As a partner no bugger ever wants to buy your shares, whereas in a public company the shares are a marketable currency. A lot of professional companies like ours don't develop after going public because they don't have the confidence and acumen to acquire nther businesses. That's never been a problem with us.

In the 1980s it was easier to grow because the whole construction industry was going mad. I think Malcolm could see the potential, which is one of the reasons he came on board. Also, I needed a good financial adviser at the time and Malcolm understood the business.

If we'd tried to build the company organically it would have taken far too long. We didn't have 50 years to grow it so we used the stock market to realise our ambitions.

One of the reasons for our success has been Malcolm's decisiveness. He's very good at cutting the crap, especially when dealing with lawyers and accountants. They find his approach incredibly arrogant yet he's the only person I know who can get a six-hour meeting down to under two hours.

It's great having someone like him on board, [illegible] through all the detail and [illegible] – which is unusual for an accountant."

Fiona Lafferty

Today's students want to be management consultants, says **Diane Summers**

Dreamers and shakers

What do final-year students want to be when they grow up? At one time something vaguely altruistic or at least glamorous might have appeared at the top of the list of dream jobs. These days students fantasise abont heing management consultants.

For the second year running, consultants McKinsey and Co, Boston Consulting Gronp and Andersen Consulting have been ranked the three most desirable employers by final-year business and engineering students at European universities.

A total of 4,700 students at 56 institutions in 13 countries were qnestioned hy Universum, the Stockholm-based media and communications company, for its annual survey.

The consultant effect is not restricted to Europe. When Universum carried ont a comparable survey in the US recently, it got a similar result – McKinsey and BCG topped the list, although Goldman Sachs, the US investment bank, crept in third.

Just three years ago compnter companies dominated the dream jobs league in Enrope. Hewlett-Packard was top dog, and IBM and Microsoft featured in the number four and five slots of the European survey. By this year they had dropped to slots nine, 15 and 11 respectively. Apple, meanwhile, has plummeted to the bottom, from 12th position in 1995 and 48th last year.

Future employability is what graduates are looking for most, according to Universum. Michal Kalinowski, vice-president, says: "The old definition of job security has been replaced with a new definition. Today, job security means future employability – in other words, students want to work for a leading company that will be a good reference for their future career."

Europe: the most popular employers

Rank '97 ('96)	Company	Rank '97 ('96)	Company
1. (1)	McKinsey & Co.	6. ([illegible])	BMW
2. (2)	Boston Consulting Group	7. (10)	Unilever
3. (3)	Andersen Consulting	8. ([illegible])	Siemens
4. (5)	Procter & Gamble	9. (7)	Hewlett-Packard
5. ([illegible])	Nestlé	10. (11)	ABB

Source: Universum

New companies to make the top 50 list this year include: General Electric; Andi; Scandinavian Airlines; Esso/Exxon Chemical; and Deloitte Tonche Tohmatsu. Companies that have dropped off the hnttom inclnde: Renault; Norsk Hydro; Bosch; Statoil; and Heineken.

Bebind management consultancy, which 14 per cent of the sample said was tbeir ideal industry, come engineering (10 per cent) and consumer goods (8 per cent). Least popular sectors appear to be consumer electronics (1 per cent), insurance (1 per cent), and pulp and paper (zero).

The multinational company seems to he the most popular type of organisation to work for (39 per cent). Students qnoted having colleagues of otber nationalities, adapting to foreign cultures and business practices, and working in a foreign language as particnlar henefits. Large national or local companies (15 per cent) come second, while the public sector and government agencies (1 per cent) are the poor relations with the least votes.

And what do graduates most want to get from their first employer? Opportunity to work on a variety of tasks is top. Meanwhile, a below-average salary is rated the most unattractive characteristic. Indeed, slaving for below-average reward is seen as even less acceptable than working with morally doubtful products or services.

A cosy office cat is let out of the bag

Lucy Kellaway

Most women who have jobs and young families come to work for a rest. There may be a few who do their resting at home, hut they must have wall-to-wall domestic help or nasty, stressful jobs.

The rest of us look forward to work for a bit of relaxation. In the morning we can't wait to close the door on the noise, squalor and undone tasks and head for a calm adult world of chats and coffee.

Until last week I thought this was our secret. But now the cat is out of the bag. Arlie Russell Hochschild, an academic at Berkeley, has done research on how women behave at home and at work and has written a book about it. It turns out that Frederick Taylor's ideas about streamlining production apply more to domestic tasks than to work ones.

This most definitely rings a bell. I have just done a straw poll of working mothers and found that at home they rarely make a wasted movement. None of them ever goes up or down stairs without carrying stray objects. A free minute is long enough to get the clothes out of the washer and put them in the drier. Five minutes is plenty to polish the children's shoes. And a spare two hours – that is enough to make a start on painting the bathroom.

At work it is quite different. A brief pause in the work flow means it is time for a hiscult and an aimless gossip. A slack hour or two is an invitation to go to the hairdressers.

Hochschild's conclusions are, to put it politely, eccentric. She says companies should be worried. They should reflect on whether their employees are becoming one-sided, narrow and uncreative. And if family lives fall apart as a result of skiving at the office, then that is apparently bad too. Unhappy employees are not the most productive. It is in employers' interests to help make home life more tempting.

Maybe in ultra-enlightened California companies really do think this way. But in Britain I fear a different response. If women find work life a doddle in comparison with home, then the obvious thing for an employer is to give them even more to do and find ways of making their work lives that little hit harder.

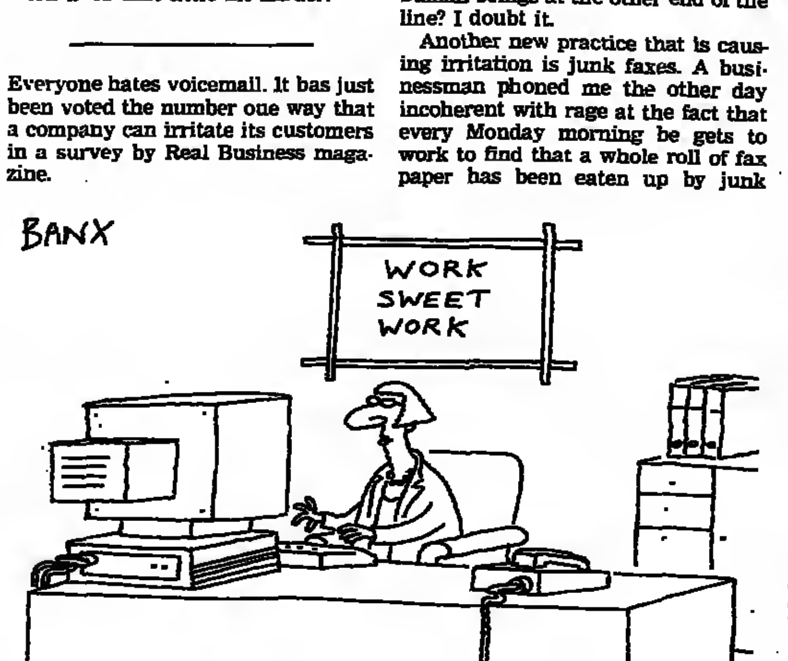
Everyone hates voicemail. It bas just been voted the number one way that a company can irritate its customers in a survey by Real Business magazine.

Given how many companies have substituted voicemail for staff, it is surprising that no one has done any research to find out if such a switcb pays. Are the savings on telephonists' salaries really greater than the revenues lost when angry customers defect to a competitor offering buman beings at the other end of the line? I doubt it.

Another new practice that is causing irritation is junk faxes. A businessman phoned me the other day incoherent with rage at the fact that every Monday morning be gets to work to find that a whole roll of fax paper has been eaten up by junk faxes – anything from business travel offers to conferences on management training. Thirsting for revenge, he posts these faxes back to the sender in an envelope without a stamp, gleefully imagining the company forking out for postage.

This strikes me as a feeble way of getting your own back. It assumes that the faxes are being sent out by real people – rather than by programmed machines – who care one way or another about how their faxes are going down.

However, his response underlines what a bad way unsolicited faxes are of getting new customers. If people are cross before they even see your message, the prospect of it getting anywhere beyond the bin seems rather slim.



Want to write a management book, but feel that every conceivable idea has already been taken? Don't worry: Tao is the answer.

I've just heen sent an advance copy of *Tha Tao of Sales* hy Dr E. Thomas Behr. It is full of essential tips such as: "Like water, be fluid and supple: work in harmony with all things, not in opposition." Behr, who lives on "a pre-revolutionary farm" in New Jersey, sounds like a New Age nutter.

But take heart. It is not essential to be New Age yourself, nor to know the first thing about Chinese philosophy. Take *The Tao of Coaching* by Mark Landesberg, published last year. The anthor is a straight-laced partner of McKinsey who has written a perfectly straightforward book about coaching. His publishers obviously realise that the T-word sells, a lesson others should follow.

Many subjects have not yet received the Tao treatment. As far as I know, *The Tao of Re-Engineering* and *The Tao of Bookkeeping* are bestsellers waiting to be written.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday May 12 1997
Week 20

IN BRIEF

FDA report hits Chiron shares

Shares in Chiron, the US biotechnology company, fell $1⅝ to $18⅝ on Friday after a US Food and Drug Administration advisory committee found there was insufficient evidence to show the efficacy of Myotrophin, a treatment for Lou Gehrig's disease. The stock later recovered to close at $19⅛, down $⅞. Page 19

NPI restructures $1bn Asian portfolio
National Provident Institution, the UK mutual life assurer, has carried out one of the largest ever programme trades in a move to restructure its $1bn portfolio of Asian shares. Page 18

Debonair to seek Easdaq listing
Debonair, the Luton airport-based low-cost airline, is to seek a listing on Easdaq, the pan-European exchange. The company is expecting to be floated by October. Page 18

Meltek shares sink further
Meltek, the UK Aim-listed provider of computer support services, warned it would incur s large loss in the first half. The company announced in March that it made a pre-tax profit of £120,000 ($194,400) in 1996, but warned that trading in the current year was below budget. Page 18

Halifax rejects private brokers' plan
Halifax building society is to turn down a request from a private client stockbrokers' group that wants it to re-organise the auction of members' shares when it floats next month. The UK group wants 25 per cent of shares being auctioned to be kept for private investors. Page 18

Tring founder to seek board's removal
One of the founders of Tring International, the UK budget music company started by two former schoolfriends, is seeking to remove the board. Since flotation in February 1994, Tring has issued two profit warnings. Page 18

Skyepharma arm gets drug approval
Skyepharma, the pharmaceutical company, will announce today the first successful product launch by Jago, its Swiss subsidiary acquired for £128m ($207m) last year. Roche, the Swiss pharmaceutical group, has received regulatory approval in Switzerland for Madopar-DR, which Jago developed. Page 18

GKN in Thailand move
GKN Automotive Asia Pacific Holdings, part of GKN'e driveline division, has formed a joint venture in Rayong province, Thailand, to make components and assemble constant velocity joints and driveshafts. Page 18

Interflora board ousted
A bitter fight for the future of Britain's flower bouquets turned against the board of Interflora, the association of independent florists. A group of rebel florists ousted the entire board of the 74-year-old organisation in protest against plans to restructure its prices. Page 18

Silver looks for fresh lift
The silver market, which has been stuck below the $5 a troy ounce level, will look for fresh impetus with the publication of Gold Fields Mineral Services' report this week. The group will present its annual world silver survey on Wednesday. Page 21

Slovenian bourse set for hard times
A modest pick-up in domestic demand helped lift the pessimistic mood of the Slovenian stock market last week, but local brokers warn that the recovery could be short-lived. Tha Bank of Slovenia has refused to soften the measures introduced earlier this year to control foreign capital inflows and emerging market investors are shunning Ljubljana. Page 22

Companies in this issue

DMG bosses may get bonus

Senior managers could be entitled to millions despite London operations posting 1996 loss

By John Gapper in London

Deutsche Morgan Grenfell, the London-bsaed investment bank, is likely to disclose that a group of its senior managers became entitled to multi-million pound bonuses last year although the group recorded s loss in its UK subsidiary.

A number of directors are thought to have accumulated gains of several million pounds from a phantom option scheme which pays bonuses according to internal financial performance measures.

Mr Michsel Dobson, DMG chief executive, is believed by some executives to have become entitled to about £7.5m ($12m).

Deutsche Morgan Grenfell Group, the London company that is the main corporate vehicle for DMG, is expected to report a downturn in 1996 as a result of losses on hidden investments in its asset management arm made by Mr Peter Young.

DMG Group'a accounts will also include the substantial cost of building an equity broking arm from scratch. Its bond division, which is the most profitable part of its operations, la included in the accounts of Deutsche Bank.

The disclosure could reignite controversy among investment banks, and within Deutsche Bank, over the salaries and bonuses paid by DMG to recruit and retain investment bankers.

It is also potentially awkward because of the background of disruption and losses in its fund management arm. Deutsche has estimated the total cost of the Peter Young affair at DM 1.2bn ($730m), including losses and compensation.

The phantom option scheme is being included in the 1996 accounts for tax reasons. The individual gains likely to be shown include rewards for several years, some of which date back to the scheme's first year in 1990.

The bonuses will be paid out over several years and cannot be claimed immediately. DMG is thought to have taken legal advice on what it will have to disclose in the accounts, which have to be filed soon at Companies House.

Mr Dobson, who would not comment on his own gain, said the phantom option scheme rewarded "about 200" senior managers in DMG sccording to measures including return on equity, which averaged 40 per cent between 1993 and 1995.

"There may be a presentational issue for us, but this is a long-term incentive scheme that has served the bank well over several years. The fsct that it had to be crystallised last year because of tax is coincidence," he said.

The accounts of Morgan Grenfell & Co, its merchant banking arm, which were lodged at Companies House last November, show s sharp rise in remuneration. A dozen employees earned more than £1m each in 1995, compared with just one in 1994.

Morgan Grenfell's two highest-paid employees for 1995 both earned £2.1m, while three more staff earned between £1.5m and £2m. The group started recruiting staff from other investment banks during 1995 to build up its operations.

Michael Dobson is believed to be entitled to $12m

General Electric arm takes Spanish cable stake

By David White in Madrid

A US consortium including General Electric's financial arm GE Capital Services and Bank of America has become the largest shareholder in Cableuropa, a Spanish cable TV company.

Cableuropa said the deal would help to consolidate a leading position in the sector in Spain, which besides TV broadcasts would involve telephone and interactive services for households and corporate clients.

It estimated it would be able to generate investments of some Pta360bn ($2.5bn) for Spanish cable projects. The deal marks the latest stage in the expansion in Europe of GE Capital, which has made several acquisitions.

The consortium – Spain Telecommunications (Spainco) – was formed by the third US partner, Callahan Associates International, headed by Mr Richard Callahan, former president of US West International.

The US partners' combined 32.5 per cent stake was bought from three Spanish electrical utilities, Endesa, Unión Fenosa and Hidrocantábrico, for an undisclosed sum.

The deal marks a further breach in the would-be strategic alliance between Endesa and Banco Central Hispano, which until now had equal 20 per cent shares in the cable venture.

It follows a parting of ways between the two groups in the bidding to form Spain's second fixed-line telephone operator, in which Endesa is allied with Stet of Italy and BCH with the French-German-US GlobalOne grouping.

The other shareholders in Cableuropa are Banco Santander with 27.5 per cent, the Ferrovial construction company and media venture Multitel. Spainco is also to take 25 per cent stakes in Cableuropa subsidiaries.

Cableuropa is involved in cable TV companies operating under provisional licences or on a trial basis in six Spanish cities, and is competing for 10 local licences.

Last year it obtained a court order halting the operations of rival venture Cablevisión on the grounds of unfair competition by the Telefónica telecommunications group.

FTSE All-Share moves to real time

By Martin Dickson in London

The FTSE All-Share Index, the main benchmark for measuring fund managers' performance in UK equities, will be calculated every minute of the trading day from today. Until now, it has been updated only at the end of the day's trading.

The index is owned and managed by FTSE International, s joint venture between the Financial Times and the London Stock Exchange. The move reflects increasing demand for the monitoring of portfolio risk throughout the day.

The All-Share Index, which was launched in 1962, covers some 98 per cent of UK quoted stocks. Britain's first "real time", or constantly updated, share index was the FTSE 100, founded in 1984, which consists of the largest UK companies by market capitalisation.

It was created because the futures and options markets needed an index on which to deal. The move by the All-Share to real time calculation will not lead to the creation of derivatives products because the large number of index constituents makes it impractical.

From tomorrow's edition, the FT will report the hourly movements of the All-Share in the FTSE Actuaries Share Indices table which appears on the London stock market reports page. This table will inclnde hourly movements in the FTSE SmallCap index, which covers the smaller constitnents of the All-Share.

We are also moving our statistics on the FTSE Aim index, to this table, and are adding coverage of the FTSE 350 index ex-Investment Trusts, and the All-Share index ex-Investment Trusts.

To make space for these improvements, we have stopped coverage of tha FTSE 350 industry baskets. Readers seeking further information on these baskets should contact FTSE International on 0171 448 1810.

Co-op seeks legal change to deter future predators

By David Blackwell

Britain's Co-operative movement has rejected a fundamental change to its structure and opted instead to seek changes in the law to keep predators at bay, following an abortive £1.2bn ($1.9bn) bid by Mr Andrew Regan.

The framework for a new Co-operative Bill was handed to the UK government last week. Mr Graham Melmoth, chief executive of the Co-operative Wholesale Society, said the movement had to make "an articulate case for a long overdne reform".

The Co-operative Council, to which societies belong, wants to replace the Industrial and Provident Act. It says the act is not tailor-made for co-operatives, and that the movement should be governed by its own legislation.

Before the election the Labour Party said it would give any proposals serious consideration. Any new law is expected to include tougher rules safeguarding co-operatives from predators.

Questions abont the failed bid from Mr Regan and his Lanica Trust were raised at the Co-operative Retail Society's annual general meeting in London on Saturday.

Mr Peter Rowbotham, CRS chairman, said afterwards there had been worries about the threat posed by future predators. "We assured delegates that we are taking the appropriate defensive measures," he said. The CRS, the biggest single shareholder in the CWS, plunged £14m into the red last year.

Delegates expressed concern over the results, bnt backed the management's plans to triple investment to £200m.

But there is no question of a merger between the CWS, with sales of £3bn, and the CRS, with sales of £1.7bn. Mr Rowbotham denied there was a rift between them, bnt said "we cannot afford to start talks which could prove fruitless". Delegates left with two main impressions – that the CRS should concentrate on making its own business more profitable, and that it should take the necessary steps to protect its mutual status.

Meanwhile it emerged that Mr Regan and his partner Mr David Lyona were behind County Produce, an agricultural marketing co-operative that joined the CWS last year.

The CWS said it would have had no influence on the bid and that it checked with the Registry of Friendly Societies that County was a bona fide co-operative before accepting its application.

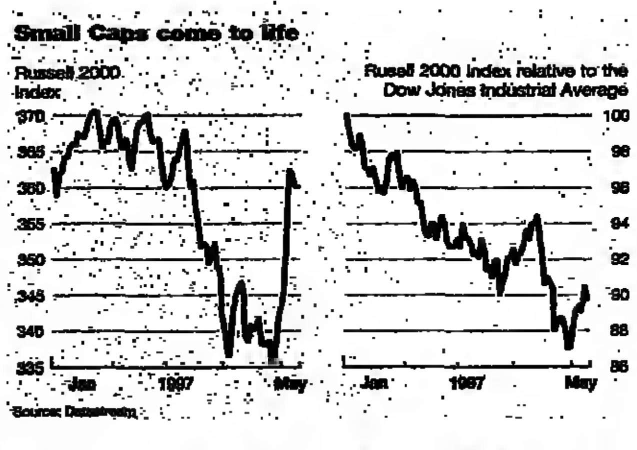
Shares in Lanica Trust, Mr Regan's investment vehicle, remain suspended while a stock exchange inquiry into dealing in the shares continues. Lanica also faces a civil action from the CWS.

Mr Regan and Mr Lyons are vigorously contesting a private prosecution by the CWS for aiding, abetting, counselling or procuring theft and for handling stolen property.

Small company shares rise on Wall Street

By Jane Martinson in New York

Small Caps come to life



Source: Datastream

Wall Street traders were given a fillip last week – not from the record-breaking parformance of the blue chips but from the flickering signs of life among smallar company shares.

After a year in which tha valuation gap batwaen small and large stocks graw to unprecedented proportions, the relief was palpable. "What we have seen is a rebound from one of the worst periods of performance in the history of the smaller company index," said Ms Claudia Mott, head of smaller company research at Prudential Securities.

The increases that have prompted such enthusiasm have not been spectacular. The Russell 2000, the most widely used index for smaller companies, closed 2 per cent up on the week, compared with a 1 per cent improvement for the S&P 500, which covers the largest groups in the market.

However, the Russell 2000, which includes companies valued between $100m and $1bn, had failed to outperform the S&P 500 since the beginning of the year.

After s year in which the smaller companies have lagged the larger by some 20 per cent, such signs of recovery have received a warm welcome. The improvement has given succour to bulls who want to see s broader based recovery.

Research by Prudential suggests that the performance gap between the S&P 500 and the Russell 2000 in the year to April was the second worst in the history of the index.

The only time when smaller was during the recession of 1990, prompting Ms Mott to call the gap "unprecedented without a recession". Smaller companies typically perform badly in a downturn when investors flock to the safety of larger groups with diversified earnings. The past year has enjoyed benign economic conditions when cheap credit and a bull market should have benefited younger stocks.

Several reasons are given for euch an unusual situation. First, the outstanding performance of the S&P 500 and the Dow Jones Industrial Average bas partly ekewed the comparison.

Mr Randy Haase, senior portfolio manager at Alliance Capital, says there has been "a quasi bear market" with investors wanting to join in but fearing risky stocks. He says investing has become a "form of eavings account" with smaller investors picking the shares that appear least risky.

Such a situation has enabled the Alliance Quasar growth fund to buy shares in smaller companies at prices below the earnings, while large multinationals are trading on multiples of 40 times earnings in spite of much weaker revenue growth, says Mr Haase.

The gap between big and small is particularly marked among technology stocks, the second largest constituent of the Russell 2000 at 14 per cent. Mr Ted Aronson, a Philadelphia based fund manager, says the performance gap between the big technology stocks and smaller groups had grown to as much as 50 per cent by the end of April.

Analysts also believe that the Russell took time to digest the record number of initial public offerings in 1996, partly caused by the demand for new technology ahares earlier in the year. Some 860 smaller companies came to the market, raising over $60bn and increasing fears abont competition. But, after such a downturn, Mr Aronson believes a "reversion to the norm is long overdue". He sees this week's rally as a sign that the market has made the same assumption.

COMPANIES AND FINANCE

Robert Fleming Securities undertakes one of largest ever programme trades for UK mutual

NPI restructures $1bn Asian portfolio

By George Graham, Banking Correspondent

National Provident Institution, the UK mutual life insurer, has carried out one of the largest ever programme trades in a move to restructure its $1bn portfolio of Asian shares.

Robert Fleming Securities, the UK based broker which carried out the programme trade for NPI, executed more than 11,000 individual trades in order to reshuffle the portfolio of shares in nine countries, including Australia, Japan and Hong Kong.

Programme trading involves a bulk order for buying and selling a number of different shares: in this case more than 250 individual securities.

The order is put out to tender for an all-in price, which helps to reduce the cost of the trade, especially in Asian markets where commission rates can be high. Some Asian markets are also relatively illiquid, thus increasing the risk of a price fall as soon as the manager starts trying to sell.

Although the trade was handled by Robert Fleming in London, many of the individual purchases and sales were carried out by its associate Jardine Fleming, a leading Asian equity broker.

The restructuring of the portfolio follows the arrival at NPI earlier this year of two new Asian fund managers, Mr Lloyd Branford and Mr Geoffrey Randells, recruited from Goldman Sachs Asset Management.

The programme trade allowed them to imprint their own stamp on the portfolio.

"When a new team comes on board, the portfolio should reflect its own views," said Mr Branford. "If performance suffers now, we can't blame it on the previous manager."

The NPI portfolio now has an increased Hong Kong weighting, and also applies the new team's criteria for selecting individual equities: management strength, defendable franchises, secure income streams and attention to the rights of minority shareholders.

Interflora directors cut off at the roots

By Richard Wolffe

A bitter fight for the future of Britain's flower bouquets yesterday turned decisively against the board of Interflora, the association of independent florists.

A group of rebel florists succeeded in ousting the entire board of the 74-year-old organisation in protest against plans to restructure prices.

At an EGM yesterday, about 950 florists voted marginally in favour of deselecting 11 directors. The board reacted by calling for a postal ballot of all 2,600 members, to be held within the next two weeks.

But the real battle was over the soul of the UK's florist shops, which are facing intense competition.

Interflora currently co-ordinates flower deliveries across the country, providing computer terminals to florists and clearing payments between its members.

The board had proposed to lift the florists' annual subscription charge from £300 to £1,750, ($483 to $2,800), while lowering the cost of each transaction from £2.99 to 60p.

Interflora directors had wanted to revise prices as part of a wide package of measures to harmonise the service across the UK.

The board was also investigating ways of converting Interflora into a limited company, with shares distributed to members, and a possible flotation at a later date.

But the rebels described the changes as a step towards franchise status. They condemned the board for appearing to be more keen on selling Interflora than serving members.

The rebels point to the experience of Interflora's counterparts in the US, where they say similar price changes led to a decline in membership and market share.

Rival organisations are understood to be recruiting Interflora members within the UK.

Interflora rejects claims that it is trying to create a chain of florist stores.

Interflora is a non-profit-making organisation, which reported revenues of £12m last year from sales of £80m.

Halifax rebuffs private brokers

By Christopher Brown-Humes

The UK-based Halifax building society will this week turn down a request from private client stockbrokers who want it to reorganise the auction of members' shares when it floats next month.

The Association of Private Client Stockbrokers and Investment Managers (Acpims) wants 25 per cent of the shares being auctioned to be set aside for private investors.

Halifax, which is headed by Mr Mike Blackburn, chief executive, says this would not secure the best price for its members, and the society is pressing on with plans to sell the shares to institutions.

Alliance & Leicester, the former UK building society which converted to a bank last month, arranged three auctions for 600,000 customers who wanted to sell their shares immediately. But they generally did less well than they would have done by selling in the market, receiving an average of 533p per share; this compares with Friday's close of 626p.

Halifax says there is nothing to stop retail brokers taking part in its auction, but accepts there would be problems for execution-only brokers knowing what price to bid. To get round this difficulty, Acpims wants brokers to be able to buy at the weighted average price of that paid by institutions. But Halifax says this would contravene the rules of the auction, where shares go to the highest bidders, and says it wants the best possible price for its members.

Mike Blackburn: preparing for flotation in June

Halifax is due to float on June 2, when its 7.6m members can expect to receive as much as £6 per share, an average of nearly £2,000 each.

Skyepharma's Jago gets drug approval

By Roger Taylor

Skyepharma, the UK embryonic pharmaceutical company, will announce today the first successful product launch by Jago, its Swiss subsidiary, since last year's £128m ($206m) acquisition.

Roche, the Swiss pharmaceutical group, has received regulatory approval in Switzerland for Madopar-DR, which is a reformulated version of its established drug for Parkinson's disease.

The improved controlled release version developed by Jago allows two drugs to be taken in a single pill which gradually releases them at different speeds. Skyepharma said, "this is the first time we have managed to combine two drugs with different release profiles in one pill."

However, the company acknowledged that the financial revenues from the product would not be substantial, with royalties between 3-5 per cent and sales in Switzerland at about $5m.

Worldwide sales are currently $140m, and Skyepharma said it expected Roche to roll out the marketing of the reformulated drug through Europe and Latin America. Madopar-DR is not approved or marketed in the US.

"Initially we might receive annual revenues of about $200,000, which could eventually rise to $6m", said Mr Tim Ryan, head of corporate communications.

Skyepharma, founded in 1995 by Mr Ian Gowrie-Smith formerly head of Medeva, the pharmaceuticals group, reported a loss of £14.5m for the 17 months ended 1996.

It specialises in developing controlled release formulations of existing drugs for pharmaceutical companies.

Because most of Skyepharma's clients demand secrecy, it has been unable to reveal details of its products in development, with investors taking much on trust.

As well as royalties for developing Medopar-DR, Skyepharma will manufacture the product for Roche. This will initially be done at its facility at Basle, but may be transfered to its newly acquired plant at Lyon in France.

Tring founder seeks to oust board

By David Blackwell

One of the founders of Tring International, the budget music company started by two former schoolfriends, is seeking to remove the board.

Since flotation in February 1994 at 118p, Tring has issued two profit warnings.

Mr Mark Frey and Mr Philip Robinson acted as joint chief executives at the float. Mr Frey, who resigned his executive post in October 1995 and his non-executive role in December, is now aiming to oust Mr Robinson and return to the board.

Mr Frey and another founder investor, Mr Jay Chernow, have asked for an emergency meeting. They want to replace Mr Robinson; Mr Joe Bollom, non-executive chairman; Mr Steve Porter, finance director; and Mr Robert Leigh, non-executive director.

Debonair to seek Easdaq listing

By Michael Skapinker, Aerospace Correspondent

Debonair, the low-cost UK airline, is to seek a listing on Easdaq, the pan-European exchange. Mr Franco Mancassola, Debonair's chairman, says flotation should take place by October.

Mr Mancassola says Debonair is in advanced negotiation with McDonnell Douglas of the US about the purchase of 10 MD-95 aircraft, with options on a further five.

He says he has been assured that production of the aircraft will go ahead when McDonnell Douglas is taken over by Boeing of the US.

Debonair, which began operations last year, is largely owned by US investors, although registered in the UK. It says it needs a European listing to fund future development and to comply with EU ownership rules. These stipulate that EU airlines must be at least 50 per cent European-owned.

The airline's decision follows the announcement by Ryanair, the Irish low-cost carrier, that it is to float later this month on the Dublin stock exchange and on Nasdaq in the US.

Debonair was established to take advantage of the liberalisation of the EU aviation market, which was completed on April 1. The airline expects to make a pre-tax loss of £13.9m ($22.5m) in the year to March 1997, followed by a £4m pre-tax profit in 1997-8. It expects profits to be £16m in the year to March 1999.

The airline flies between Luton in the UK, Barcelona, Madrid, Rome, Munich, Düsseldorf and Copenhagen. It has a fleet of six leased British Aerospace 146-200s, with a seventh due for delivery this month.

The leases on these aircraft expire towards the end of the decade and Mr Mancassola, who held executive positions in several US airlines, says the MD-95 will eventually replace them.

GKN venture in Thailand

GKN Automotive Asia Pacific Holdings, part of GKN's driveline division, has formed a joint venture in Rayong province, Thailand, to make components and assemble constant velocity joints and driveshafts.

GKN Automotive will have 51 per cent of the new company, GKN Driveshafts (Thailand). Its Thai partners – Concept Management and Mr Khemadhat Sukondhasinga, chairman, and affiliates – will hold 49 per cent.

NEWS DIGEST

Caradon chief gets 20% more

Mr Peter Jansen, chief executive of Caradon, the UK building materials group, received a 20 per cent increase in his total remuneration package last year to £490,245.

The 1996 package was boosted by an £88,813 bonus, reflecting the growth in the company's earnings per share.

Caradon's executive directors are eligible for a bonus if earnings per share increase by at least 13.1 per cent – in 1996, the marginal increase above that minimum level was 6.6 per cent.

Mr Jansen's basic salary was unchanged on the previous year's at £393,000, according to the annual report. He was also granted options over 152,413 shares, which can be exercised between 1999 and 2006 at a price of 221.3p.

Two months ago, the company unveiled plans to return £174m to shareholders, following a string of disposals which raised £220m.

It also reported a 33 per cent rise in annual pre-tax profits to £152.5m. However, the share price has remained under pressure, with the shares closing on Friday at 238p, near where they stood a year ago, as the company continued to face tough European construction markets.

Charis Gresser

Fountain Forestry first buy

Fountain Forestry, which has 400,000 acres of forest under management in the UK and US, will today announce its first acquisition since floating on Aim in December. It is paying up to £250,000 for Phoenix Landscapes, which undertakes landscaping work for UK local authorities, utilities and corporate customers. The acquisition will lift annual group sales by about 50 per cent to £30m.

David Blackwell

Meltek shares sink further

Meltek, the UK Aim-listed provider of computer support services, warned that it would incur a significant loss in the first half. The company announced in March that it made a pre-tax profit of £120,000 (£469,000) in 1996, but warned that trading in the current year was below budget and margins were under pressure.

House broker Rowan Dartington had been forecasting a profit of £500,000 for the year, but said yesterday the group would now probably make a loss. Meltek is currently taking legal proceedings against its former Netherlands joint venture partner which pulled out in November causing a share plunge.

Pilat strongly ahead

Pilat Technologies International, the UK recruitment consultant which came to Aim last December, increased pre-tax profits last year by 78 per cent to £1.32m as turnover climbed from £10m to £14m. The company recorded strong growth in its software and human resources businesses in the UK and Israel. Software revenues advanced about 50 per cent, the strongest UK source being a project with BSkyB to develop its future broadcasting management system.

Christies acquisition

Christies international, the UK auctioneer, is paying £2.46m to acquire the 50 per cent stake in Studio SMK at present owned by Watmoughs. SMK, which is engaged solely in pre-press systems involved in the production of Christies' auction catalogues, will becomes a wholly owned offshoot.

Watmoughs has also sold its stake of 3m shares (1.8 per cent) in Christies, but retains a one-third investment in White Brothers (Printers), Christies' main printing arm.

Red Stripe brewer plans rights

Desnoes & Geddes, the 51 per cent-owned Jamaican offshoot of Guinness, is planning to launch a J$900m (£15m) rights issue as part of a five-year J$2.5bn capital expenditure and investment programme.

D&G, Jamaica's largest brewer, is mainly noted for its Red Stripe lager but also produces a number of international brands under licence, including Heineken, Pepsi-Cola and Schweppes. Guinness is underwriting the issue and Heineken, the Dutch brewer which holds a sizeable stake in the Jamaican company, said it would "fully support" the issue.

CONTRACTS & TENDERS

COMPANIES AND FINANCE

China Everbright achieves critical mass

Last Friday morning, China Everbright was known in Hong Kong as a small but ambitious arm of China's state council, with a few local subsidiaries and a patchy track record.

By Friday evening, it had taken centre-stage in Hong Kong business – scquiring a strategic chunk of one of the territory's biggest, moat profitable and politically sensitive companies.

The announcement by Citic Pacific, the Hong Kong arm of Beijing's flagship investment vehicle, that it would sell its 8 per cent stake in Hongkong Telecom, did not come as a surprise. Nor did the HK$11.39bn (US$1.47bn) price tag. The abock was that China Everbright was tha buyer.

"It was a bolt from the blne," said the China analyst at one of the territory's biggest investment banks. "We knew they were ambitious, but this is in a different league," be said, pointing out that tha combined capitalisation of the group's Hong Kong businesses is less than the price of the telecoms stake.

The stunned reaction from many in ths investment community underlines bow rapidly China's business forces are rising and bow Hong Kong provides the base for lift-off. Red chips have been dominating local business this year, as the msinland-backed groups raise funds in the territory and acquire stakes in many of its companies.

In the case of China Everbright, tha rise is partly explained by its backing from China's state council, or cabinet. Ths state council owns China Everbright's Holding company, which sits alongside Citic in its business portfolio.

While Citic remains the heavyweight, Everbright has been on the fast track since Mr Zhu Xiaohua took over as chairman in August last year.

As deputy governor of the People's Bank of China in the mid-1990s, he became s protege of Mr Zbu Rongjl, tben bank governor, now senior vice-premier and the country's economic czar.

Prior to that, he worked at the Hong Kong brancb of Xinhua, Beijing's de facto embassy, where he gained a feel for business.

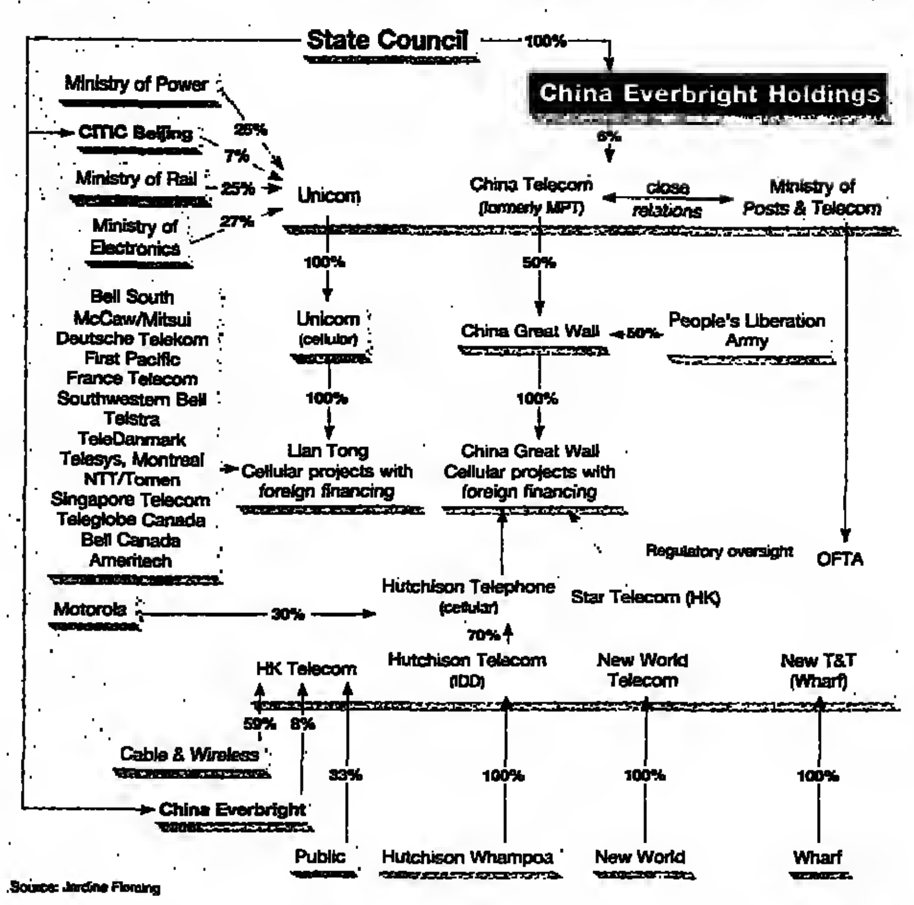
In an interview earlier this year, he spelled out his plans to re-make the company and put behind it a perlod of losses in the 1980s and early 1990s arising from ill-fatad investments in property and securities.

Finance is being given priority, reflected in the purchase of a stake in National Mntual, the insurer. But there was a mention of technology – via its Everbright Technology subsidiary, one of the three Hong Kong-listed vehicles.

As for Hong Kong: "We sbould invest more bere. We want to be active in finance and infrastructure," says Mr Zhu.

Investors have responded with entbusiasm, driving sharply higher the shares in the three listed businesses – China Everbright Technology, China Everbright International, and China Everbright IHD Pacific. But even the group's biggest backers were surprised by Friday's announcement.

Integration of Hong Kong and China telecommunication industries



Source: Jardine Fleming

"Tbey bave been anointed," said Mr John Mulcahy, managing director of W. I Carr. "This was a decision to make Everbright s strategic Hong Kong player," added another investment banker. "We are seeing the birth of another Citic Pacific. Tbey bave clearly become a force."

Less clear is wbst the mainland manoeuvrings mean for Hongkong Telecom and what role its new investor will play. Everbright has marginal experience in the sector, witb its interests limited to a 6 per cent stake in Unicom, China's fledgling second operator. That belped explain the surprise of Friday's announcement, but it also threw the spotlight on strategic considerations.

"This could be a positioning for a bigger deal," said Mr Lloyd Fischer, head of regional telecoms research at BZW. Others described it as a first step towards a broader restructuring.

According to many industry analysts, Cable & Wireless of the UK, the majority sbarebolder in Hongkong Telecom, still faces pressure to reduce its stake to s minority, partly to satisfy Beijing's political sensitivities ahead of the territory's return to China in July, and partly to improve its prospects on the mainland.

Given the tight links between the state council and China Everbright, the argument goes, Beijing is now positioning itself for s future reorganisation.

While Cable & Wireless welcomed tha deal - citing the investment as evidence of Chinese confidence in Hongkong Telecom and its post-1997 prospects, others were less sure.

"This is a strategic move, but we bave yet to see all of tbe strategy," said one investment analyst. "International investors will wonder what Everbright brings to Hongkong Telecom. And they are bound to be wondering about tbe politics behind it."

Speaking earlier this year, Mr Zhu dismissed concerns that the strategies of red chips sucb as China Everbright are dictated by politics, rejecting fears they would ride roughsbod over corporate Hong Kong. "We must follow the market rules," be said. "Foreign investors can relax."

The coming months will tell wbether that is the case. But in another respect, Mr Zhu has already delivered.

"1997 will be a very good year for China Everbright. We will take big steps," be predicted in January. Few could be bigger than Friday's bold stride into the top ranks of corporate Hong Kong.

John Ridding

FDA report on Myotrophin hits Chiron

By Tracy Corrigan in New York

Sbares in Chiron, the US biotechnology company, fell $1[illegible] to $18[illegible] on Friday after s US Food and Drug Administration advisory committee found there was insufficient evidence to show the efficacy of Myotrophin, a treatment for Lou Gehrig's disease. Tba stock later recovered somewhat to close at $19¼, down $[illegible].

The FDA, which will make a ruling on the application by August, bad requested that the committee examine the treatment in conjunction with its own review.

The FDA is not bound by tbe committee's findings. However, last week's rejection by the committee bas severely reduced Myotrophin's chances of being approved, according to analysts.

Tbe committee was instructed to examine only the evidence of the treatment's efficacy, while the FDA will consider broader issues, sucb as the availability of other treatments and the severity of tha disease.

In two recent cases involving very serious diseases, the FDA has gone against the committee's findings.

Tbe FDA committee decided by a vote of six to three that there was not substantial evidence from trials of the treatment's effectiveness.

Chiron and Cephalon, its co-developer, have indicated that they will not finance further trials.

Lou Gehrig's disease, which is also known as amyotrophic lateral sclerosis, affects the nervous system. There are about 25,000 sufferers in Europe and the US.

According to analysts, there is little effective treatment available, and little in the pipeline after an Amgen drug failed recent trials.

Cephalon, tbe smaller biotech company which developed Myotrophin and was more dependent on the success of the drug, saw more than a third of its market value wiped out on Friday, as the stock fell $7 to $13.

However, the disappointment had little impact on other biotechnology stocks. "It seems lately that tbe misfortunes of a single company haven't had broader ramifications," said Mr Paul Kelly, a biotechnology analyst at UBS Securities, noting the sector's increased maturity. A few years ago, such incidents used to knock the whole sector.

Chiron, one of a small group of profitable biotechnology companies, is widely viewed as an industry leader, but has suffered a string of disappointments, including delays in manufacturing its whooping cough vaccine and the failure of its herpes vaccine in two important trials.

'He must have jumped' says Bre-X pilot

By James Kynge in Balikpapan and Manuela Saragosa in Jakarta

"I heard a noise at the rear. It sounded as if something hit the helicopter. I beard the sound of wind rushing in." Mr Edy Tursono, an experienced Indonesian pilot, so recalled his first inkling something wss wrong on what many claim – but some doubt – was the last flight of Mr Michael de Guzman.

In his first interviaw since the geologist's disappearance marked the beginning of the end for Bre-X Minerals' Busang gold fraud, Mr Tursono continued: "It took about four or five seconds to steady the plane. The denim jacket he had hung on the seat in front of him was still there. When I reduced speed I looked back and the engineer also looked back and the engineer said: 'Mike is not there. He'a gone'.

"I did not think that Mike would go and jump bnt when Mike wasn't there I tbougbt he must have jumped," Mr Tursono said on Saturday near the Borneo town of Balikpapan.

Neither he nor the engineer, Mr Andrian Maila, looked around in the instant that they heard the noisa. Mr Tursono said, so neither of them saw Mr de Guzman open the door and jump. But the pilot maintained that it was impossible for Mr de Guzman to have fallen because he was wearing his seat belt.

Mr Tursono said the flight originated in Balikpapan at 9.10am. Also on board were Mr Andrian and another Bre-X geologist, Mr Rudy Vega. At Samarinda, a town near Busang, Mr de Guzman changed out of his sborts and put on trousers and s denim jacket over his T-shirt. Mr Vega stayed at Samarinds, and the other three took off st 10.13am for Busang.

Mr de Guzman sat next to the door on the back seat of the helicopter with his seat belt fastened; the engineer was next to the pilot in the front seat, just s few feet away.

After seeing at 10.30am that Mr de Guzman was missing, the pilot flew down to about 150ft and circled for 25 minutes but could see no trace of him. Mr Tursono punched the satellite receiver to make sure the location was registered.

"Hsd the pilot not done that, we would never have found the body," his boss, Mr Peter van Veen, general manager of Indonesia Air Transport, said in separate interview. Mr Tursono radioed to the IAT office in Jakarta, whicb instructad him to return to Samarinda.

Mr Edy Tursono maintained that it was impossible for geologist Mr Michael de Guzman to have fallen from the helicopter because he was wearing his seat belt

At Samarinda, airport officials and police sorted through Mr de Guzman's belongings. In his suitcase, they found a wallet, s watch, a mobile phone and a ring.

Bnt it was only eigbt hours later that they found a several-page suicide letter. Mr van Veen said Mr Tursono was in shock and had forgotten about the letter.

During the flight, Mr de Guzman tapped on the pilot's shoulder, showed him an envelope and placed it under the seat. Mr van Veen said this was standard practice. The message was that the pilot should post the letter when he returned to the airport.

PUBLIC NOTICES

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / **Philip Coggan**

No more such a cult following

It may eeem an odd time to raise the subject, with the FTSE 100 index setting all-time highs last week, bnt it could be time for the cult of the equity, which has held sway in the UK since the 1950s, to lose eome adherents.

Gilts made up 23 per cent of UK pension fund portfolios in 1977, according to the WM company, but that had dropped to 8 per cent by 1989 (10 per cent if you sdd in overseas bonds). Even with the rebound in fixed income portfolios in the 1990s, the total bond component in 1996 was just 14 per cent.

However, a number of factors may he conspiring to get pension fund managers more interested in bonds again. The first is last week's surprise move by Gordon Brown, tha new UK chancellor, to cede interest rate decisions to the Bank of England.

Over the long run, the hope is that giving control over rates to the Bank will result in lower inflation, which should be good for gilts.

But the corollary is that, in the short run at least, base rates will be higher than they otherwise would have been (politicians being assumed to err always on the side of lower rates). That should be bad for equities, both by increasing corporate borrowing costs and increasing the speculative attractions of sterling.

The Labour party may also have further pro-hond measures up its sleeve.

A popular assumption is that the government may act to reduce the tax advantages of dividends, to encourage companies to reinvest profits in the business. The likely route is a rednction in advance corporation tax, the "tax credit" which can be reclaimed by non-taxpaying investors.

That would reduce the income of pension funds with two probable results: funds would seek to replace the income foregone with bonds, and a loss of income might leave some funds with an actuarial shortfall, forcing companies to increase their payments to make up the deficit. That would hit profits and further reduce the attraction of equities.

Structural changes may also be forcing schemee towards honds and away from equities. Occupational schemes which offer defined benefits, linked to earnings, are becoming less popular, because employers have to make up any shortfall; defined contribution echemes, where employees take the investment risk are becoming widespread.

Another long-term influence is the 1995 Pensions Act, which established a minimum solvency requirement for funds. When the fund falls below this requirement, the employer must make up the difference. Shares are seen as riakier assets than bonds under the Act'e rules because of their greater volatility. The chances are, therefore, that companies will push for funds to hold a greater proportion of bonds.

Furthermore, the restructuring that has occurred in UK industry means that the balance of occupational schemes has shifted away from active members and towards pensioners. Schemes have become more "mature", and if they are to match assets with liabilities, should have a natural inclination to own a greater proportion of bonds.

This rationale is all very well, but it neglects the fundamental lesson that equities have tended to outperform bonds. "If your investment horizon is long enough, you should be paid to take equity riek," says Michael Hughes, global strategist at BZW.

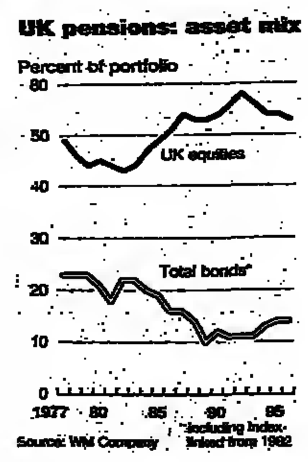
Of course, UK equities have had a phenomenal run, earning 18.8 per cent per annum over the last 20 years, and there is an argument that returns should revert to the historical mean.

But which mean would that be? Bonds have held their own as an asset class over the past few years; between 1990-1996 UK honds returned 11.9 per cent per annum, against 12.7 per cent for domestic equities. That gap is much lower than the long-term average, so you could argue that equities are due for a period of more substantial outperformance.

Peter Chambers, chief investment strategist at HSBC James Capel, points ont that those occasions when bonds do outperform equities tend to be during recessions, conditions which do not appear to be on the horizon for the moment.

And yet...and yet. in the days before the cult of the equity began, daya of low inflation and fiscal orthodoxy, equlties actually yielded more than honds. Fund managers were supposed to concentrate on security and stability of income, rather than the highest returns availahle. Those conditions are the norm of investment history; the last forty years have been the exception.

UK pensions: asset mix



Source: WM Company *Including Index-linked from 1982

Total return in local currency to 08/05/97

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.06	0.06	0.18	0.12
Month	0.47	0.04	0.27	0.27	0.60	0.52
Year	5.98	1.18	3.38	4.06	8.56	6.45
Bonds 3-5 year						
Week	-0.01	-0.55	0.18	0.17	0.54	0.76
Month	1.13	-1.05	0.82	0.62	1.38	1.76
Year	6.57	5.54	8.08	8.83	15.69	9.45
Bonds 7-10 year						
Week	-0.03	-1.18	0.55	0.48	1.34	2.12
Month	1.75	-2.54	1.60	1.27	2.34	3.78
Year	7.49	8.58	12.48	12.84	23.96	14.70
Equities						
Week	2.8	3.0	2.9	-0.2	0.4	2.8
Month	5.9	9.6	5.8	2.7	3.5	6.6
Year	28.9	-8.0	43.6	30.5	20.5	24.9

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE — Compiled By AFX News

Telefonica expected to show strong growth

Telefonica de Espana, the Spanish telecoms group, is today expected to report first-quarter net profits after minorities of between Pta28.5bn and Pta29.4bn ($202.8m) – up from Pta24.08bn a year earlier. Analysts said strong revenue growth, both from Spanish and overseas operations, would be the key profit-drivers, adding that lower financial costs would help offset higher depreciation and other charges.

Mr Alberto Arroyo, analyst with BBV, said: "Among all the European telecoms companies, Telefonica is the one which is growing the most in terms of revenue. That's thanks to the strong performance of its mobile phones, basic telephony and Latin American operations."

Mr Tom Lloyd, an analyst with ABN-Amro, said: "The key earnings drivers will be the group's mobile phone activities and its overseas operations, with Telefonica internacional seeing a 35 per cent rise in revenues."

■ Iberdrola, Spain's largest private-sector electrical utility, is expected to show a slight fall in first-quarter net profits on Wednesday, according to analysts.

The forecasts are for profits after minorities of between Pta32.1bn and Pta33.5bn – compared with Pta34.013bn.

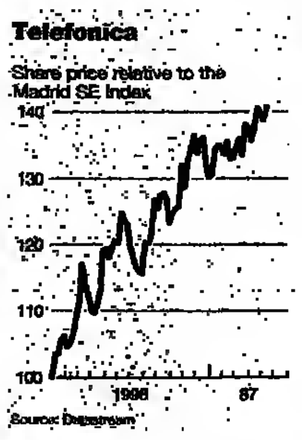
First-quarter earnings for the utility sector as a whole are expected to be depressed by weak electricity production and consumption as a result of unseasonally warm temperatures in February and March.

Mr Juan Uguet, Beta Capital analyst, said electricity demand fell by 1.9 per cent in the first quarter because of the unusnally warm weather, adding that industrial demand "was especially depressed" because the Easter holiday period also fell in March, rather than in April as last year.

■ National Australia Bank is expected to report net profit for the six months to March of between A$1bn and A$1.2bn ($930m), according to analysts. They forecast a dividend of 43-47 cents. Profits last time were A$998m.

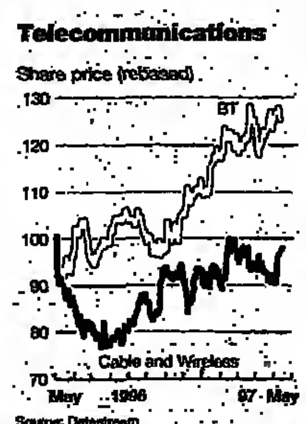
Growth in loans and receivables, cost containment and contributions from offshore operations are all expected to have added to strong interim earnings.

Telefonica



Source: Datastream

Telecommunications



Source: Datastream

NAB reported a three months to December net profit of A$582m.

■ On Thursday Aegon, the Netherlands-based insurer, is expected to report net profits ahead to Fl 360m-Fl 387m ($199.4m) in the first quarter – from Fl 325.6m.

Mr Andreas de Groot of MeesPierson said he was expecting net profit of Fl 384m or Fl 1.45 a share, up about 18 per cent. He expects total premium income to rise to Fl 5.45bn from Fl 4.821bn a year earlier, with total revenue np at 7.53bn from 6.695bn a year earlier.

Mr De Groot said the first quarter would develop in line with the full year,with very strong life insurance results and investment income also rising.

■ CSM, the Dutch foods manufacturer, is expected to report net profit for the six months to March of between Fl 98.8m and Fl 103m – up from Fl 93.5m.

Mr Frank Smudde of Financieele Diensten Amsterdam said he expected the results – due on Thursday – to show a net profit of Fl 105m or Fl 2.67 a share. He said CSM would benefit substantially from the higher dollar in the period, especially as it had made a number of acquisitions in the past few years, particularly in the US.

■ Metsae-Serla Oy will today report a first-quarter pre-tax result ranging between losses of FM40m and profits of FM140m ($6.87m), according to forecasts cited by one local An average of eight analysts' forecasts is for pre-tax profits of FM32.1m.

The range of estimates reflects recent "massive" restructuring, including changes in senior management, the impact of which is difficult to assess, analysts said.

■ British Telecommunications reports its final results on Thursday under its present name. Next year it will, if the merger with MCI goes smoothly, report as Concert, incorporating six months profits from its US partner.

This year's pre-tax result is expected to be between £3.15bn and £3.17bn ($5.13bn), equivalent to earnings per share of 32.8p-33.5p, with a dividend of 19.85p. There will be keen interest in the extent to which BT's competitors are cutting into its market share.

■ Cable and Wireless will complete a third year of dramatic change on Wednesday, announcing pre-tax profits of between £1.4bn and £1.46bn compared with £1.34bn. Earnings per share will be 30.4p-33p a share. A dividend of 11p 10 per cent up on last time is anticipated. Hongkong Telecom, in which C&W has a 59.16 per cent stake, reported better than expected results last week, which sbould push the UK group's performance towards the top end of the estimates.

■ Tomorrow, BOC, industrial gases group, is expected to report subduad growth with interim pre-tax profits of about £215m. The group is likely to have experienced some pricing pressure in its core industrial gases business in north America and the UK.

INTERNATIONAL EQUITIES By Edward Luce

Latin levels reach rock bottom

Competition for privatisation mandates in Latin America has reached a pitcb few thought possible, with the award of the Petrobras mandate to Credit Suisse First Boston last week.

CSFB, whlcb is to lead manage the Brazilian company's $300m initial public offering later this year, bid fees of just 1.15 per cent on the deal – a level described as "close to rock bottom" by one competitor.

Others, however, recalled their reaction in January to the 1.5 per cent fees bid by SBC Warburg, JP Morgan, Lehman Brothers and Morgan Stanley for the Unibanco privatisation.

Few, at the time, believed the Brazilian market could squeeze investment banks any drier.

CSFB has put paid to that illusion.

"I wouldn't be surprised if we saw one of the banks bidding 1 per cent for a $1bn deal in the near future," said one syndicate manager. Another pointed out that, with fees amounting to $3.4m, CSFB was in danger of making a loss on the deal.

"Clearly CSFB is making an investment in Brazil and boping to win downstream business from this," said a bank official in New York. "The fees on the Petrobras deal will barely cover the cost of tbe roadsbow, let alone ths percentsges that have to be split with the syndicate members."

Equity officials say there is little end in sight to the trend, and rumours that the fees on the mandates for three forthcoming Brazilian electricity privatisations will drift a little higher than the recent nadir have done little to spark renewed optimism.

"The only plausible event that can reverse this trend is a big disaster on a privatisatiou deal," said one manager in London. "We are increasingly seeing unqualified banks outbidding the more experienced ones to win big emerging market mandates so the disaster scenario is not that unlikely."

With fees also dropping in eastern Europe, others are hoping that the market will show some signs of resistance on the TPSA (Polish telecom) privatisation later this year.

But, witb Rabobank recently winning the mandate for the $120m privatisation of Raba – a Hungarian truck manufacturer – on fees of just 2.5 per cent, the omens are not good.

"I can understand banks bidding low fees for privatisations of over $500m because tbe workload is essentially the same as on a $100m deal," said an official in London.

"Anything lower than that isn't worth it."

Analysts say that the stress on quality and on stronger corporate relationships makes it unlikely,the trend will spread so markedly to developed markets.

Hope is also strong that in Russia, where fees of more than 4 per cent are still the norm, the trend will continue to be hucked.

"Russian companies know that a good lead manager can market a share price which is perhaps 10 per cent higher than it would be under a bad lead manager," said a syndicate head.

"Judged against that, the fee level is almost irrelevant."

In other amerging markets, by contrast, fee competition is often given the heaviest weighting.

Fees were given a weighting of 140 on a scale of just 200 on one recent deal in Latin America, according to one banker.

"If this continues then the quality of underwriting will decline."

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 9 1997								THURSDAY MAY 8 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg ance 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	230.82	4.1	211.41	177.64	203.30	197.30	6.2	3.66	228.81	209.31	176.05	203.12	195.27	230.92	188.44	209.34
Austria (24)	190.76	0.5	174.66	146.76	167.96	167.91	10.5	1.89	187.20	171.24	146.48	166.18	166.13	195.04	174.70	187.19
Belgium (26)	246.62	8.3	225.78	189.72	217.12	212.63	18.2	3.38	245.12	224.23	191.81	217.60	213.05	246.62	205.89	206.80
Brazil (30)	253.07	33.4	231.88	194.88	222.79	496.56	36.9	1.52	253.06	231.48	198.02	224.64	496.03	253.07	205.89	206.80
Canada (113)	198.59	4.6	181.81	152.77	174.84	199.77	6.0	1.97	197.23	180.42	154.34	175.08	197.53	203.81	162.25	163.60
Denmark (32)	374.06	6.3	342.47	287.77	329.33	327.98	16.1	1.54	371.13	339.49	290.41	329.45	326.07	376.98	154.12	162.83
Finland (26)	266.97	6.7	244.41	205.37	235.03	286.66	20.6	1.59	263.81	241.41	206.52	234.28	285.78	268.58	291.89	298.23
France (91)	221.18	3.3	202.48	170.15	194.76	198.22	13.6	2.88	220.13	201.36	172.26	195.41	198.96	228.25	183.06	183.06
Germany (59)	210.99	11.1	193.16	162.31	185.75	185.75	22.0	1.52	208.70	190.91	163.31	185.26	185.26	210.99	188.94	194.62
Hong Kong (66)	494.40	-2.5	452.82	380.33	435.26	481.81	-2.4	3.06	488.57	446.92	382.32	433.70	485.87	514.48	165.02	166.26
Indonesia (27)	236.73	3.7	216.73	182.11	208.41	352.76	6.7	1.55	233.04	213.18	182.36	206.97	347.12	514.48	407.55	416.74
Ireland (16)	342.24	4.1	313.32	263.28	301.30	317.60	16.0	3.01	336.89	308.17	263.62	299.06	314.20	–	–	–
Italy (59)	89.44	7.1	81.88	68.80	78.74	112.12	18.3	2.22	88.10	81.51	69.72	76.10	112.42	343.35	270.06	278.92
Japan (486)	124.85	-3.4	114.11	95.89	109.74	95.89	1.3	0.82	124.04	113.47	97.06	110.11	97.06	96.32	73.26	82.29
Malaysia (107)	544.42	-9.8	498.42	418.81	479.30	525.76	-10.4	1.20	545.97	499.15	427.00	484.39	526.97	159.23	107.57	166.90
Mexico (27)	1385.25	13.6	1268.19	1065.65	1216.54	11970.34	14.0	1.21	1364.81	1248.46	1067.99	1211.54	11828.76	660.85	512.47	568.85
Netherland (19)	366.81	8.1	335.63	282.02	322.75	318.67	20.1	2.46	361.76	330.84	283.10	321.18	317.28	1445.68	1110.35	1237.04
New Zealand (14)	96.87	-5.2	76.62	66.90	76.56	67.20	-2.6	4.23	97.30	79.86	68.31	77.50	67.65	366.61	279.88	293.62
Norway (41)	301.44	2.0	275.96	231.89	265.38	288.25	12.6	2.14	299.89	274.32	234.67	266.21	288.34	95.80	75.94	81.37
Philippines (22)	159.03	-21.8	145.59	122.34	140.01	209.00	-21.7	0.89	160.24	146.58	125.39	142.24	210.58	321.23	243.72	244.84
Singapore (43)	386.14	-8.0	353.51	297.05	339.95	256.33	-5.3	1.10	380.83	348.37	298.01	338.07	253.47	–	–	–
South Africa (44)	362.50	13.8	331.87	278.86	319.14	353.33	8.5	2.38	360.96	330.18	282.46	320.43	352.62	448.01	360.08	430.13
Spain (35)	242.07	10.1	221.61	186.22	213.11	262.65	21.3	2.49	237.66	217.60	166.15	211.17	259.92	370.12	301.49	342.04
Sweden (49)	441.36	4.6	404.07	339.53	388.57	501.54	17.8	2.06	437.96	400.64	342.76	388.80	499.89	242.07	171.81	174.54
Switzerland (35)	283.51	18.6	259.56	218.10	249.60	251.09	26.4	1.33	281.04	257.08	219.92	249.48	251.33	448.64	334.36	342.57
Thailand (43)	68.18	-28.8	62.42	52.45	60.02	68.74	-27.9	4.53	69.46	63.56	54.37	61.68	70.30	283.51	229.38	233.71
United Kingdom (211)	296.40	4.7	271.35	228.01	260.94	271.36	10.8	3.63	293.61	268.58	229.75	260.64	268.88	184.18	68.18	181.51
USA (652)	333.81	10.8	305.60	258.79	293.88	333.81	10.6	1.82	332.13	303.82	259.80	294.84	332.13	296.40	229.63	231.06
Americas (822)	305.31	10.6	276.51	234.87	268.79	257.15	10.7	1.82	303.74	277.85	237.68	269.63	256.76	336.17	254.76	263.10
Europe (725)	257.47	7.4	235.71	198.06	226.67	237.66	18.2	2.66	255.08	233.34	199.61	226.44	236.60	307.12	233.09	240.66
Nordic (150)	381.48	5.1	349.25	293.47	335.85	373.82	17.2	1.98	378.44	346.18	296.14	335.94	372.94	257.47	204.71	207.13
Pacific Basin (883)	143.62	-3.4	131.48	110.48	126.44	109.71	0.1	1.31	142.81	130.64	111.76	126.76	110.49	385.85	291.45	293.64
Euro-Pacific (1608)	191.10	2.5	174.95	147.01	168.24	158.01	6.7	2.06	189.63	173.47	148.39	168.34	158.12	171.76	127.18	171.55
North America (765)	325.52	10.3	298.01	250.42	286.58	324.94	10.4	1.83	323.68	296.25	253.42	287.49	323.21	191.51	176.55	186.26
Europe Ex. UK (514)	230.86	6.1	211.35	177.59	203.24	214.38	19.8	2.10	228.74	209.24	176.99	203.05	214.13	327.69	248.65	256.86
Pacific Ex. Japan (398)	305.06	-3.2	279.28	234.68	268.57	265.52	-2.4	2.78	302.69	276.88	236.86	268.70	263.46	230.86	185.65	190.01
World Ex. US (1822)	194.46	3.1	178.03	149.59	171.20	164.14	6.9	2.05	193.00	176.54	151.02	171.32	164.13	320.65	268.97	280.15
World Ex. UK (2263)	233.28	6.7	213.57	179.46	205.37	206.94	9.5	1.76	231.87	212.11	181.45	205.84	206.63	194.46	176.94	197.27
World Ex. Japan (1989)	297.10	8.6	271.99	228.55	261.56	266.75	11.4	2.17	295.12	269.66	230.94	261.98	265.27	233.28	199.58	208.37
The World Index (2474)	238.66	8.5	218.49	183.60	210.11	212.78	8.8	1.95	237.14	218.93	185.57	210.51	212.28	297.10	233.10	239.38

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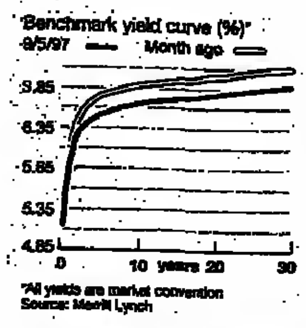
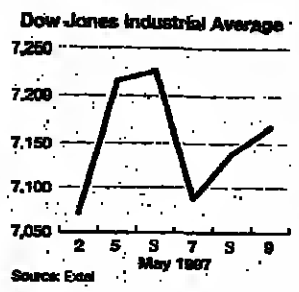
MARKETS: This Week

NEW YORK By Tracy Corrigan





After veering between hope and fear last week, the bond market is starting the week on a positive note, with many analysts expecting a crop of data that will prove bond-friendly.

As the May 20 meeting of the Federal Reserve looms, the market is being sustained by growing hopes that the Fed will decide a further increase in interest rates is not necessary, for the moment at least.

Though Fed chairman Mr Alan Greenspan's thinking is notoriously hard to read, his comments last week that the March rate rise was "insurance" and that he expects the economy to continue to grow moderately with low inflation were seen as suggesting that he may not lift rates next week.

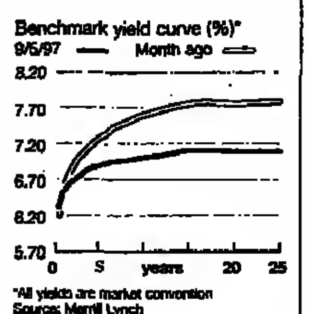
However, some commentators focused on his concern over growth spurred by credit, rather than savings and rising productivity.

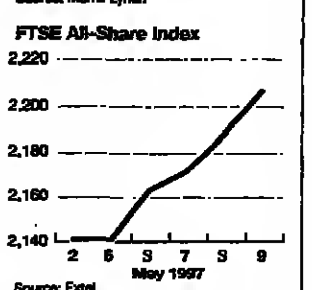
Among the data that will help Mr Greenspan make his decision are April's retail sales numbers, due on Tuesday and forecast to show a fall of 0.5 per cent, *after a rise of 0.2* per cent in March. However, excluding car sales the forecast is for a rise of 0.2 per cent, compared with 0.5 per cent in the previous month.

The April producer price index, due Wednesday, is predicted to rise 0.1 per cent, after a 0.1 per cent fall in March, according to S&P's MMS survey.

On Thursday, the market will focus on April's consumer price index, forecast to have risen 0.1 per cent, and industrial production and capacity utilisation numbers for April. Also on Thursday the Philadelphia Fed index for May will give some sign of current conditions.

LONDON By Philip Coggan





The UK markets will spend the week recovering from the after-shocks of the surprise decision to allow the Bank of England to set interest rates, which sent shares and gilts higher, and sterling lower last week.

The result will be that even greater attention will be paid to the Bank's inflation report, published tomorrow. The Bank has previously been more hawkish oo rates than the Treasury, but it faces the dilemma that while higher rates might be beneficial in slowing the consumer sector, they would hit industry hard.

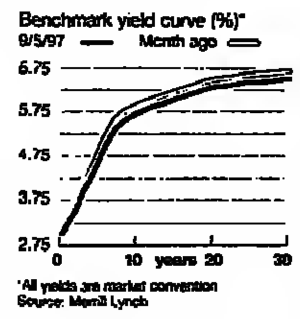
Foreign currency traders seemed to take the view last week that the government might have more radical changes in mind, such as *re-joining* the Exchange Rate Mechanism at a lower rate.

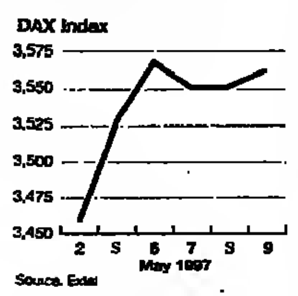
While the Treasury denied such talk, there seems little doubt that the governmeot would welcome a modest spell of sterling weakness, which would ease the pressure on exporters.

Gilt investors seemed to be in seventh heaven, both at the Bank's new role and at the ERM talk. The spread between 10-year UK and German governmeot boods has narrowed to less than 140 basis points. This new-found optimism will face a test in the form of figures oo producer prices, average earniogs and retail prices, which will indicate whether UK economic strength is flowing through into inflationary pressures.

Equities liked both higher gilts and lower sterling. But the pound's fall may not be sufficieot to avert more bad news from the corporate sector. Companies to report this week include Allied Domecq, BOC, BT, Cable & Wireless, Geoeral Accideot, Grand Met and Safeway.

FRANKFURT By Graham Bowley





Germany's budgetary difficulties will be the focus of attention this week with the publicatioo on Thursday of the likely tax shortfall this year.

The government suggested at the end of January a potential shortfall of DM8bn was likely but Mr Theo Waigel, finance minister, has since said he could not rule out a higher shortfall.

UBS has forecast a tax-take of about DM15bo to DM20bn below the governmeot's original plans. The outcome will have an important bearing on whether Germany meets the 3 per cent budget deficit target required for European monetary union.

"Owing to the revenue shortfall and higher than planned public speoding, we reckon that this year's budget deficit will exceed the original plan (2.5 per cent of GDP) by about DM30bn (0.8 per ceot of GDP)," UBS analysts said.

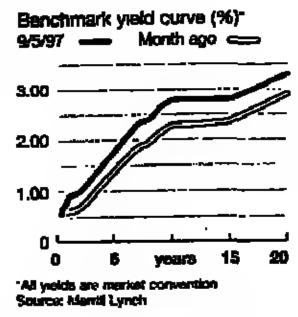
The Bundesbank meets oo Thursday but it is not expected to change interest rates. Data last week showed rising orders and increased capacity use in manufacturing industry but unemployment remained high. This suggested growth was still too weak to make any big reductions to the jobless total.

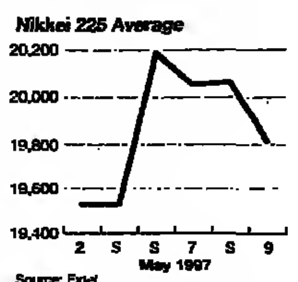
Ecooomic data this week are expected to show a continued subdued inflationary picture with the publicatioo of consumer price figures.

Analysts expect retail sales figures to show a decline in March compared with a year ago.

The DAX index of 30 blue chip shares closed at 3,533.21 at the end of electronic trading oo Friday, after finishing floor trading at 3,562.41. Both figures were higher oo the week.

TOKYO By Gwen Robinson





Markets this week will be vulnerable to concern over the dollar's recent fall against the yen, from Y125 to Y121 in just three days last week, and speculation about an interest rate rise.

Rumours that the central bank might raise the official discount rate from its historic low of 0.5 per cent as early as July sent the yield on the key long-term Japanese government bond soaring to 2.68 per cent at one stage on Friday.

In the short-term, Japan's financial authorities are unlikely to rule out a rate increase completely, as they have been trying to take the heat out of the bond market and talk up the yen.

In the absence of firm denials, the yield on the No 182 JGB is likely to move between 2.4 and 2.8 per cent this week while prices fluctuate on the downside.

The Economic Planning Ageocy said on Friday the economy was recovering gradually oo growing private demand and improved industrial production. While economists agree with the general prognosis, most say it is still too early to raise interest rates.

"Although the end of the super-low rate cycle is oearing, we do not expect a hike in rates before the start of 1998," said Mr William Campbell, fixed income analyst at J.P. Morgan.

Equities are likely to remain in a consolidatioo phase after hefty gains in early May. Analysts predict the Nikkei 225 will hover between 19,000 and 20,000.

If the dollar continues to weakeo against the yen, selling of export-oriented issues is expected oo concern over foreign exchange losses. Domestic demand-led stocks, however, will beoefit from the yen's strength.

COMMODITIES By Susanna Voyle

Silver looks for fresh lift

The silvar market – stuck below the $5 a troy ounce level – will be looking for fresh impetus with the publication of a new report this week.

Gold Fields Mineral Services will present its annual world silver survey on Wednesday. The consultancy – which last week published its annual survey of the gold market – will focus on supply, demand, stocks and market trends. The report will be launched at simultaneous presentations hosted hy the Silver Institute in New York and London.

Most analysts are bearish about the direction of the silver price.

Mr Ted Arnold, London metals specialist at Merrill Lynch, said he thought most trade over the next two to three months would he within the $4.60 to $5 range.

"We have cut the top end of our trading range hy 50 cents since April and have lowered the bottom end hy 10 cents," he said. "The fund sell-off in silver last mooth was heavy and we think it most unlikely now that prices will he pushed up again over the $5 level."

CPM, the precious metals and commodities research and consulting group, also feels the silver price is unlikely to rise mnch. It points out that while the supply of silver is running below demand, the price has remained flat to lower since the start of the year.

But the group dismisses those who wonder if this meaos there is something "wroog" with the market. "Supply and demand are only two parts of the total silver market," says the group. "One must also look at investment demand and inventories, and here the outlook is far from hullish.

"Investors continue to be net sellers of silver, as they remain enamoured hy world stock markets. And inventories remain high relative to the shortfall of new supply, even after seven consecutive years of such shortfalls."

The price of silver in London on Friday afternoon was "fixed" at $4.83 a troy ounce, little changed from Thursday.

OTHER MARKETS Compiled by Jeffrey Brown

Most hourses closed on Friday in good shape and looking for further upward progress should Wall Street, which faces a big week for economic data, stay on an even keel.

PARIS

After two weeks of slack volume and holiday-reduced trading, the Paris hourse gets hack to normal this week and the election is going to be the main talking point. Voters cast their first round votes in just 13 days time and in the intervening period the opinion polls are likely to be followed with ever closer scrutiny.

From this distance, the race looks fairly open. Best hets among analysts still point to a win for Mr Jacques Chirac's ruling coalition.

However, recent opinion polls have made it clear the contest is proving far closer than initially predicted. As a result, the French bourse is going to hecome increasingly campaign-sensitive.

A number of hrokers feel that investors may be taking too relaxed a view of the electioo.

"Any evidence of further gains by the Socialist Party will undoubtedly increase the pressure on the market because the socialist programme is incompatible with the Maastricht Treaty criteria," UBS writes in its Equity Week Ahead.

French shares traded sideways last week. The corporate sector's contrihution over the next few days centres on analysts' meetings by retail group Danone and Salomon, the ski equipment group.

AMSTERDAM

In contrast, Dutch shares face a number of poteotial corporate treats. Aegon unveils first-quarter results and there are annual meetings at Royal Dutch and at Vendex, the retail and business services group which floated in 1995 to become an instant stock market darling.

Aegon reports on Thursday and the leading insurance group is expected to weigh in with profits growth approaching 20 per cent, helped by the strength of the US dollar.

Recently reported strong earnings and news of a stock split have whetted investors' appetites for more good news at the Royal Dutch annual meeting.

Vendex, which has seen its shara price almost doubla over the past year, may offer shareholders further insights into plans for the spin-off of its Vedior services operations.

STOCKHOLM

Nordic bourses were one of last week's stronger investment flavours, with hoth Helsinki aod Stockholm pushing loto new high ground. The Stockholm general index gained more than 3 per cent.

Recent share huy-hacks from Sweden and news from Finland of a radical capital restructuring have helped focus attention on this week's crop of corporate news from the Nordic bloc.

There are interims from Metsa-Serla, Novo-Nordisk, Securitas and UPM-Kymmene plus a prelim from Avesta Sheffield.

HONG KONG

Dealers are looking for Hong Kong stock prices to stay huoyant this week after the Hang Seng Index surged to a record close on Friday in highest ever turnover of HK$17.85bn, *writes Louise Lucas from Hong Kong.*

Speculation over the future ownership structure of Hongkong Telecom and record highs on Wall Street have helped propel the index upwards. However, the futures index swung to a discount to the cash market on Friday, suggesting some waning of enthusiasm.

Focuses this week will be Hongkong Telecom, with investors expecting a second stage deal after a switch of the China shareholding from Citic Pacific to China Everbright, and a coutinuing interest in red chips.

CURRENCIES By Simon Kuper

Prospects fade of further rate increases

Traders have long believed that the two leading economies most likely to raise interest rates next are the US and tha UK. Last week cast doubt on that view, and as a result the pound and dollar tumbled.

This week could create further doubt, and a growing oumber of traders are coming to regard May as the month in which the pound and dollar turned.

Benign price data are expected from both the US and the UK this week, which would make further rate rises a dimmer prospect.

The key US data will be April producer prices on Wednesday and April consumer prices on Thursday. The trend of recent months is for US output data to emerge strong and price data weak. If this week's price figures are indeed tame, the markets will scale down their expectations that the Federal Reserve will raise rates after its Open Market committee meeting on May 20. Currently, the markets put the chance of a rate increase at about fifty-fifty.

UK base rates were raised hy 25 basis points to 6.25 per cent last week and Mr Gordon Brown, the new chancellor, handed over the right to set interest rates to the Bank of England. The Bank's new power gives added status to its quarterly Inflatioo Report due tomorrow. This will not only reveal how pressing the Bank considers price pressures to be, but will also say how the Bank plans to meet the inflation target set hy the government.

Traders expect the Bank to be more hawkish on rates than most chancellors have been. The question now is whether it will consider last week's rate rise sufficient for the moment.

It will receive a wealth of new information this week. Producer price figures for April appear today, average earnings for March – the most closely watched data – oo Wednesday, and the retail price index for April on Thursday.

The vigil for Italy to raise interest rates continues.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
ICI (UK)	Units of Unilever (UK/N'lands)	Speciality chemicals	$8bn	ICI transforms
Gambro (Sweden)	Vivra (US)	Healthcare	$1.6bn	Incentive consolidation
Auchan (France)/Ifil (Italy)	JV	Retailing	$1.2bn	Pooling Italian interests
NEC (Japan)/Shanghai Hua Hong Micro (China)	JV	Semiconductors	$700m	Manufacturing push
Illovo Sugar (SA)	Unit of Lonrho (UK)	Food	$375m	Lonrho exits sugar
Molturacion de Graneles (Spain)	Devnya Cement (Bulgaria)	Cement	$44.5m	Privatisation boost
Boeing/McDonnell (US)	Aero Vodochody (Czech Republic)	Aerospace	$28m	Leading consortium
Oxford Molecular (UK)	Genetics Computer (US)	Computer servs	$20m	Software move

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 9, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7692.15	4750.00	2805.01	3903.04
Albania	(Lek)	243.558	150.400	88.8154	123.583
Algeria	(Dinar)	92.8823	57.3560	33.8703	47.1290
Andorra	(French Fr)	9.2518	5.7130	3.3738	4.6943
	(Sp Peseta)	231.939	143.225	84.5809	117.687
Angola	(Readj Kwanza)	340883.5	210500.0	124308.1	172966.3
Antigua	(E Carib $)	4.3724	2.7000	1.5944	2.2186
Argentina	(Peso)	1.6187	0.9996	0.5903	0.8213
Armenia	(Dram)	787.579o	486.340	287.197	399.622
Aruba	(Florin)	2.8987	1.7900	1.0571	1.4708
Australia	(Aus $)	2.0803	1.2846	0.7586	1.0555
Austria	(Schilling)	19.3015	11.9188	7.0387	9.7937
Azerbaijan	(Manat)	6506.75o	4018.00	2372.74	3301.66
Azores	(Port Escudo)	275.986	170.425	100.644	140.037
Bahamas	(Bahama $)	1.6194	1	0.5905	0.8217
Bahrain	(Dinar)	0.6106	0.3770	0.2226	0.3098
Balearic Is	(Sp Peseta)	231.939	143.225	84.5809	117.687
Bangladesh	(Taka)	70.6869	43.6500	25.7773	35.8669
Barbados	(Barb $)	3.2571	2.0113	1.1877	1.6527
Belarus	(Rouble)	70179.8o	43336.9	25591.7	35609.6
Belgium	(Belg Fr)	56.6143	34.9600	20.6455	28.7264
Belize	(B $)	3.2388	2.0000	1.1811	1.6434
Benin	(CFA Fr)	925.160	571.300	337.379	469.433
Bermuda	(Bermudian $)	1.6194	1	0.5905	0.8217
Bhutan	(Ngultrum)	58.0393	35.8400	21.1651	29.4496
Bolivia	(Boliviano)	8.4857	5.2400	3.0945	4.3057
Botswana	(Pula)	5.7532	3.5524	2.0979	2.9190
Brazil	(Real)	1.7262	1.0660	0.6295	0.8759
Brunei	(Brunei $)	2.3328	1.4405	0.8507	1.1836
Bulgaria	(Lev)	2440.43	1507.00	889.926	1238.29
Burkina Faso	(CFA Fr)	925.160	571.300	337.379	469.433
Burma	(Kyat)	10.2759	6.3455	3.7472	5.2141
Burundi	(Burundi Fr)	557.479	344.250	203.289	282.868
Cambodia	(Riel)	3724.62	2300.00	1358.21	1889.89
Cameroon	(CFA Fr)	925.160	571.300	337.379	469.433
Canada	(Canadian $)	2.2496	1.3892	0.8204	1.1415
Canary Is	(Sp Peseta)	231.939	143.225	84.5809	117.687
Cp. Verde	(CV Escudo)	150.402	92.8750	54.8453	76.3147
Cayman Is	(CI $)	1.3412	0.8282	0.4891	0.6805
Cent. Afr. Rep	(CFA Fr)	925.160	571.300	337.379	469.433
Chad	(CFA Fr)	925.160	571.300	337.379	469.433
Chile	(Chilean Peso)	676.504	417.750	246.700	343.262
China	(Yuan)	13.4299	8.2931	4.8975	6.8144
Colombia	(Col Peso)	1744.30	1077.13	636.091	885.086
Comoros	(Fr)	705.350	435.563	257.212	357.899
Congo	(CFA Fr)	925.160	571.300	337.379	469.433
Costa Rica	(Colon)	370.049	228.510	134.942	187.765
Côte d'Ivoire	(CFA Fr)	925.160	571.300	337.379	469.433
Croatia	(Kuna)	9.9557	6.1478	3.6304	5.0516
Cuba	(Cuban Peso)(1)	34.0074	21.0000	12.4011	17.2556
Cyprus	(Cyprus £)	0.8272	0.5108	0.3016	0.4197
Czech Rep.	(Koruna)	49.3707	30.4870	18.0040	25.0509
Denmark	(Danish Krone)	10.4393	6.4464	3.8069	5.2970
Djibouti Rep	(Djib Fr)	251.007	155.000	91.5318	127.362
Dominica	(E Carib $)	4.3724	2.7000	1.5944	2.2186
Dominican Rep	(D Peso)	22.8254	14.0950	8.3235	11.5818
Ecuador	(Sucre)	6294.60o	3887.00	2295.38	3193.92
	(Sucre)	6267.07a	3870.00	2285.34	3179.85
Egypt	(Egyptian £)	5.4982	3.3952	2.0050	2.7898
El Salvador	(Colon)	14.1779	8.7550	5.1701	7.1939
Equat'l Guinea	(CFA Fr)	925.160	571.300	337.379	469.433
Estonia	(Kroon)	22.1638	13.6864	8.0822	11.2460
Ethiopia	(Ethiopian Birr)	10.4451	6.4500	3.8089	5.2999
Falkland Is	(Falk £)	1	0.6175	0.3647	0.5074
Faroe Is	(Danish Krone)	10.4393	6.4464	3.8069	5.2970
Fiji Is	(Fiji $)	2.2938	1.4165	0.8365	1.1639
Finland	(Markka)	8.2856	5.1165	3.0216	4.2041
France	(Fr)	9.2518	5.7130	3.3738	4.6943
Fr. Cty/Africa	(CFA Fr)	925.160	571.300	337.379	469.433
Fr. Guiana	(Local Fr)	9.2518	5.7130	3.3738	4.6943
Fr. Pacific Is	(CFP Fr)	171.009	105.600	62.3596	86.7706
Gabon	(CFA Fr)	925.160	571.300	337.379	469.433
Gambia	(Dalasi)	16.0199	9.8925	5.8418	8.1286
Germany	(D-Mark)	2.7423	1.6934	1	1.3914
Ghana	(Cedi)	3198.31	1975.00	1166.29	1622.84
Gibraltar	(Gib £)	1	0.6175	0.3647	0.5074

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	436.947	269.820	159.341	221.709
Greenland	(Danish Krone)	10.4393	6.4464	3.8069	5.2970
Grenada	(E Carib $)	4.3724	2.7000	1.5944	2.2186
Guadeloupe	(French Fr)	9.2518	5.7130	3.3738	4.6943
Guam	(US $)	1.6194	1	0.5905	0.8217
Guatemala	(Quetzal)	9.7181	5.9992	3.5427	4.9295
Guinea	(Fr)	1733.97	1070.75	632.308	879.828
Guinea-Bissau	(Peso)	56681.1	35001.3	20669.2	28760.3
Guyana	(Guyanese $)	228.497	141.100	83.3235	115.941
Haiti	(Gourde)	27.1139	16.7432	9.8873	13.7576
Honduras	(Lempira)	20.6635	12.7600	7.5351	10.4848
Hong Kong	(HK $)	12.5424	7.7451	4.5738	6.3641
Hungary	(Forint)	291.759	180.165	106.396	148.040
Iceland	(Icelandic Krona)	115.317	71.2100	42.0518	58.5127
India	(Indian Rupee)	58.0393	35.8400	21.1651	29.4496
Indonesia	(Rupiah)	3933.52	2429.00	1434.43	1995.89
Iran	(Rial)	4858.20u	3000.00	1771.68	2465.08
Iraq	(Iraqi Dinar)	0.5035o	0.3109	0.1836	0.2555
Iraq	(Iraqi Dinar)	1943.28m	1200.00	708.634	986.031
Irish Rep	(Punt)	1.0665	0.6586	0.3889	0.5412
Israel	(Shekel)	5.5001	3.3964	2.0057	2.7908
Italy	(Lira)	2718.41	1678.65	991.319	1379.33
Jamaica	(Jamaican $)	55.3835	34.2000	20.1961	28.1019
Japan	(Yen)	197.081	121.700	71.8694	100
Jordan	(Jordanian Dinar)	1.1482	0.7090	0.4187	0.5826
Kazakhstan	(Tenge)	122.459	75.6200	44.6557	62.1364
Kenya	(Kenya Shilling)	87.2858	53.9000	31.8295	44.2892
Kiribati	(Australian $)	2.0803	1.2846	0.7586	1.0555
Korea North	(Won)	3.4817	2.1500	1.2696	1.7666
Korea South	(Won)	1446.93	893.500	527.652	734.182
Kuwait	(Kuwaiti Dinar)	0.4911	0.3033	0.1791	0.2492
Laos	(New Kip)	1556.24	961.000	567.497	789.647
Latvia	(Lats)	0.9362	0.5781	0.3414	0.4750
Lebanon	(Lebanese £)	2499.14	1543.25	911.359	1268.08
Lesotho	(Maloti)	7.2217	4.4595	2.6335	3.6643
Liberia	(Liberian $)	1.6194	1	0.5905	0.8217
Libya	(Libyan Dinar)	0.5757	0.3555	0.2099	0.2921
Liechtenstein	(Swiss Fr)	2.3130	1.4283	0.8435	1.1736
Lithuania	(Litas)	6.4773	3.9998	2.3620	3.2866
Luxembourg	(Lux Fr)	56.6143	34.9600	20.6455	28.7264
Macao	(Pataca)	12.9601	8.0030	4.7260	6.5760
Macedonia	(Denar)	74.0593	45.7325	27.0084	37.5782
Madagascar	(MG Fr)	6963.42	4300.00	2539.27	3533.28
Madeira	(Port Escudo)	275.986	170.425	100.644	140.037
Malawi	(Kwacha)	24.8395	15.3350	9.0558	12.6007
Malaysia	(Ringgit)	4.0607	2.5075	1.4808	2.0604
Maldive Is	(Rufiya)	19.0609	11.7700	6.9505	9.6713
Mali Rep	(CFA Fr)	925.160	571.300	337.379	469.433
Malta	(Maltese Lira)	0.6249	0.3859	0.2279	0.3171
Martinique	(Local Fr)	9.2518	5.7130	3.3738	4.6943
Mauritania	(Ouguiya)	235.202	145.240	85.7683	119.343
Mauritius	(Maur Rupee)	33.0601	20.4150	12.0560	16.7749
Mexico	(Mexican Peso)	12.7989	7.9035	4.6674	6.4942
Moldova	(Leu)	7.4250	4.5850	2.7076	3.7675
Monaco	(French Fr)	9.2518	5.7130	3.3738	4.6943
Mongolia	(Tugrik)	755.725	466.670	275.582	383.459
Montserrat	(E Carib $)	4.3724	2.7000	1.5944	2.2186
Morocco	(Dirham)	15.3458	9.4762	5.5960	7.7866
Mozambique	(Metical)	18178.4	11225.4	6628.91	9223.83
Namibia	(S A Rand)	7.2217	4.4595	2.6335	3.6643
Nauru Is	(Australian $)	2.0803	1.2846	0.7586	1.0555
Nepal	(Nepalese Rupee)	92.2248	56.9500	33.6306	46.7954
Netherlands	(Guilder)	3.0842	1.9045	1.1247	1.5649
N'nd Antilles	(A/Guilder)	2.8987	1.7900	1.0571	1.4708
New Zealand	(NZ $)	2.3584	1.4551	0.8593	1.1956
Nicaragua	(Gold Cordoba)	15.0042	9.2653	5.4714	7.6132
Niger Rep	(CFA Fr)	925.160	571.300	337.379	469.433
Nigeria	(Naira)	35.4422o	21.8860	12.9243	17.9836
	(Naira)	138.054m	85.2500	50.3440	70.0493
Norway	(Nor. Krone)	11.4090	7.0452	4.1605	5.7890
Oman	(Rial Omani)	0.6235	0.3850	0.2274	0.3164

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(2)	65.2452	40.2897	23.7929	33.1058
Panama	(Balboa)	1.6194	1	0.5905	0.8217
Papua New Guinea	(Kina)	2.2492	1.3889	0.8202	1.1412
Paraguay	(Guarani)	3473.61	2145.00	1266.68	1762.53
Peru	(New Sol)	4.3173	2.6660	1.5744	2.1906
Philippines	(Peso)	42.7038	26.3700	15.5727	21.6680
Pitcairn Is	(£ Sterling)	1	0.6175	0.3647	0.5074
	(NZ $)	2.3584	1.4551	0.8593	1.1956
Poland	(Zloty)	5.0874	3.1415	1.8552	2.5813
Portugal	(Escudo)	275.986	170.425	100.644	140.037
Puerto Rico	(US $)	1.6194	1	0.5905	0.8217
Qatar	(Riyal)	5.8952	3.6404	2.1497	2.9913
Reunion Is. de la	(F/Fr)	9.2518	5.7130	3.3738	4.6943
Romania	(Leu)	11173.0	6899.50	4074.35	5669.27
Russia	(Rouble)	9320.46m	5755.50	3398.88	4729.25
Rwanda	(Fr)	493.075	304.480	179.804	250.186
St Christopher	(E Carib $)	4.3724	2.7000	1.5944	2.2186
St Helena	(£)	1	0.6175	0.3647	0.5074
St Lucia	(E Carib $)	4.3724	2.7000	1.5944	2.2186
St Pierre & Miquelon	(F/Fr)	9.2519	5.7130	3.3738	4.6943
St Vincent	(E Carib $)	4.3724	2.7000	1.5944	2.2186
San Marino	(Italian Lira)	2718.41	1678.65	991.319	1379.33
Sao Tome	(Dobra)	3862.48	2385.13	1408.49	1959.84
Saudi Arabia	(Riyal)	6.0735	3.7505	2.2148	3.0817
Senegal	(CFA Fr)	925.160	571.300	337.379	469.433
Seychelles	(Rupee)	8.1061	5.0050	2.9556	4.1126
Sierra Leone	(Leone)	1263.13	780.000	460.612	640.920
Singapore	($)	2.3328	1.4405	0.8507	1.1836
Slovakia	(Koruna)	53.6067	33.1040	19.5494	27.2013
Slovenia	(Tolar)	250.413	154.633	91.3152	127.061
Solomon Is	($)	5.8907	3.6376	2.1481	2.9890
Somali Rep	(Shilling)	4242.83	2620.00	1547.18	2152.83
South Africa	(Rand)	7.2217	4.4595	2.6335	3.6643
Spain	(Peseta)	231.939	143.225	84.5809	117.687
Spanish Ports in N Africa	(Sp Peseta)	231.939	143.225	84.5809	117.687
Sri Lanka	(Rupee)	96.0385	59.3050	35.0223	48.7305
Sudan Rep	(Dinar)	237.242	146.500	86.5129	120.378
Surinam	(Guilder)	649.379	401.000	236.802	329.499
Swaziland	(Lilangeni)	7.2217	4.4595	2.6335	3.6643
Sweden	(Krona)	12.4305	7.6760	4.5330	6.3073
Switzerland	(Fr)	2.3130	1.4283	0.8435	1.1736
Syria	(£)	67.7719	41.8500	24.7136	34.3878
Taiwan	($)	44.8331	27.6850	16.3492	22.7486
Tanzania	(Shilling)	974.069	601.500	355.203	494.248
Thailand	(Baht)	42.0720	25.9800	15.3424	21.3476
Togo Rep	(CFA Fr)	925.160	571.300	337.379	469.433
Tonga Is	(Pa'anga)	2.0803	1.2846	0.7586	1.0555
Trinidad/Tobago	($)	10.0824	6.2260	3.6766	5.1159
Tunisia	(Dinar)	1.7623	1.0883	0.6426	0.8942
Turkey	(Lira)	221080.5	136520.0	80621.3	112177.5
Turks & Caicos	(US $)	1.6194	1	0.5905	0.8217
Tuvalu	(Australian $)	2.0803	1.2846	0.7586	1.0555
Uganda	(New Shilling)	1705.23	1053.00	621.826	865.242
Ukraine	(Hryvna)	2.8604	1.7663	1.0431	1.4514
U A E	(Dirham)	5.9473	3.6725	2.1688	3.0177
United Kingdom	(£)	1	0.6175	0.3647	0.5074
United States	(US $)	1.6194	1	0.5905	0.8217
Uruguay	(Peso Uruguayo)	14.9552	9.2350	5.4535	7.5883
Vanuatu	(Vatu)	184.181	113.740	67.1666	93.4593
Vatican	(Lira)	2718.41	1678.65	991.319	1379.33
Venezuela	(Bolivar)	780.875v	482.200	284.761	396.220
Vietnam	(Dong)	18875.7	11656.0	6883.19	9577.65
Virgin Is-British	(US $)	1.6194	1	0.5905	0.8217
Virgin Is-US	(US $)	1.6194	1	0.5905	0.8217
Western Samoa	(Tala)	4.0344	2.4913	1.4712	2.0471
Yemen (Rep of)	(Rial)	200.951r	124.090	73.2786	101.964
Yugoslavia	(New Dinar)	8.9236	5.5104	3.2541	4.5279
Zaire Rep	(Zaire)	285500.1	176300.0	104110.1	144864.4
Zambia	(Kwacha)	2095.50	1294.00	764.143	1063.27
Zimbabwe	($)	18.3154	11.3100	6.6791	9.2933
ECU	(ECU)	1.4106	0.8710	0.5144	0.7157
SDR	(SDR)	1.18145	0.728165	0.423758	0.583002

Abbreviations: (a) Free rate; (m) Market rate; (c) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Pakistan Rupee devalued by 7.86pc against US dollar 22/10/96. FT enquiries to Business Research Centre 0171 256 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.

EMERGING MARKETS By Kevin Done

Investors turned off Slovenia

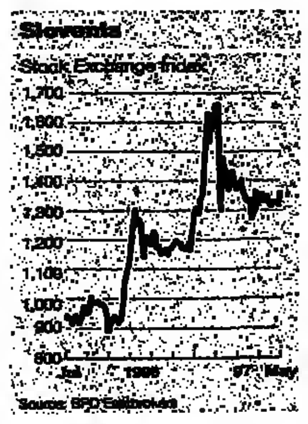
A modest pick-up in domestic demand helped lift the pessimistic mood of the Slovenian stock market last week, but local brokers warn that the recovery could be short-lived.

With the Bank of Slovenia refusing to soften the measures introduced earlier this year to control foreign capital inflows, emerging market investors are still shunning Ljubljana in favour of cheaper pickings elsewhere.

The legality of the central bank moves is being challenged by one brokerage at the constitutional court, but relief from this quarter is unlikely to come quickly.

Becalmed at a low level last summer, the Slovenian stock market had been making impressive gains with two big advances, first in September last year and again during January, with prices jumping more than 80 per cent since August, before the central bank intervened.

The rise had been driven largely by interest from abroad. For the first time since the Ljubljana bourse was established in 1989, foreign investors' appetite for Slovenian equities coincided with a growing supply of attractive stocks, ae an increasing number of newly privatised companies listed for the first time.



The 4 per cent gain in the Ljubljana stock exchange index (SBI) last week was helped by the debut of the latest Slovenian blue-chip stock, Petrol, the local oil company which controls almost 80 per cent of petrol retailing.

As prices rose sharply early this year, domestic investors joined the party, pushing the SBI to an all-time high in the early days of February at 1,655. The air of celebration was not shared by the Bank of Slovenia, bowever, which had watched the wave of foreign portfolio investment with growing alarm.

It ordered tbat non-residents must conduct all portfolio inveetments through custody accounts established at authorised domestic banks, and that the banks must treat such investments as part of their own foreign exchange expoeure, which must be balanced with equivalent foreign exchange reserves.

The effect has been to add 8 to 15 per cent to the annual costs for foreign investors of holding ehares on the Ljubljana stock exchange, compared with a maximum of 1.5 per cent in custody account coets in other emerging markets.

The central bank action has had a drastic impact. At the worst point in late March prices had fallen 24 per cent, with the index plunging to 1,260, while daily trading volumes have collapsed to 5–10 per cent of previous levels at around 100m tolars ($647,000), compared with as much as 2bn tolars in the previous bull market. Despite last week's rally, the SBI starts trading today at 1,362, eome 18 per cent below February's peak.

Foreign portfolio managers and brokers have deserted the market in droves and are still sbying away from Slovenian stocks.

While the Bank of Slovenia has defended its actions on the grounds of the threat posed to its conduct of monetary policy, some foreign fund managers also see the measures as being motivated by fear of foreign investors taking control of Slovenian companies.

Capital markets legislation – including the regulation of mergers and acquisitions – is still beld up in parliament, and in the absence of such rules, companies feel vulnerable to foreign stake building and to the threat of bostile takeovers.

The hurdles placed in the way of foreign investors have appeared at an unfortunate moment in the development of the Ljubljana stock exchange, which had been expanding rapidly with first listings for many blue chip enterprises such as Kolinska in the food processing sector, Lek and Krka, the pharmaceuticals groups, and Mercator, the supermarket chain.

Mr Drasko Veselinovic, chief executive of the stock exchange, says the bourse is fighting against the extra costs imposed on foreign investors, and he expresses concern about the impact on prices of so many new stocks joining the market, when the outlcok is so depressed.

The price volatility, illiquidity and limitations of the Ljubljana stock exchange have been underlined by the success of the recent issue of global depositary receipts (GDRs) by SKB Banka, Slovenia's second-largest bank, which is the country's first company to gain a listing on international stock exchanges.

The GDRs are trading in London, Frankfurt and Munich at a huge premium at around double the domestic share price.

Without eccess to a properly functioning stock market and inhibited by high domestic interest rates, Slovenian companies will struggle to raise capital to finance restructuring.

Mr James Oates, director of eastern and central European equities at UBS, the Swiss bank, warne that "another couple of years of capital starvation and a lot of Slovenian companies will not be competitive".

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	09/05/97	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	175.53	+2.12	+1.22	−0.05	−0.03	+15.41	+9.63
Latin America							
Argentina (22)	121.94	+1.75	+1.46	+7.28	+6.35	+14.81	+13.82
Brazil (24)	353.04	+9.48	+2.78	+11.49	+3.37	+92.01	+35.25
Chile (16)	196.76	+3.78	+1.95	+4.85	+2.52	+34.31	+21.12
Colombia (13)	239.85	+2.55	+1.08	+9.93	+4.32	+66.15	+38.09
Mexico (27)	93.24	+1.28	+1.40	+0.73	+0.79	+11.56	+14.15
Peru (12)	1,255.05	−10.17	−0.80	−11.32	−0.89	+247.83	+24.61
Venezuela (6)	66.16	+4.97	+8.12	+4.64	+7.54	+4.00	+6.44
Latin America (119)	176.66	+3.64	+2.06	+5.12	+2.95	+35.18	+24.50
Europe							
Czech Rep.(14)	67.13	−3.58	−3.94	−11.21	−11.40	−17.14	−18.44
Greece (20)	188.21	+15.66	+9.16	+21.39	+12.98	+73.90	+65.80
Poland (25)	334.43	−3.88	−1.15	−11.44	−3.31	−9.32	−2.71
Portugal (18)	183.56	+5.80	+3.26	+22.39	+13.89	+37.38	+25.57
South Africa (30)	146.24	−0.32	−0.22	+0.59	+0.40	+16.35	+12.59
Turkey (27)	152.48	+5.75	+3.92	−6.92	−4.34	+27.43	+21.94
Europe (134	137.93	+1.94	+1.42	+3.28	+2.43	+19.59	+16.56
Asia							
China (27)	66.49	+2.45	+3.83	+11.11	+20.06	+10.01	+17.72
Indonesia (30)	154.17	+6.74	+4.57	+7.27	+4.95	−2.26	−1.45
Korea (23)	78.98	−3.34	−4.06	−4.16	−5.00	−2.23	−2.75
Malaysia (24)	238.83	+1.88	+0.79	−17.97	−7.00	−41.59	−14.83
Pakistan (13)	65.86	−0.07	−0.11	−3.52	−5.07	+7.41	+12.67
Philippines (18)	261.45	+3.70	+1.44	−21.68	−7.66	−52.34	−16.68
Taiwan (31)	201.65	+1.12	+0.56	−7.13	−3.42	+16.21	+6.74
Thailand (29)	115.48	−10.13	−8.07	−21.08	−15.44	−39.68	−25.58
Asia (193)	204.57	+0.37	+0.16	−9.16	−4.29	−13.08	−5.98

All indices in $ terms, January 7th 1993=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By John Thornhill

Moscow tests appetite for Russian debt

Thousands of Russia's newly-privatised companies and run-down municipal authorities are in desperate need of capital. The world's fund managers, elowly warming to Russia's potential appeal, appear in generous mcod to accommodate them. But the burning question is how the needs of borrowers and lenders can best be matched.

A pin-etriped pbalanx of investment bankers is working on an array of deals – although the challenge is complicated by Russia's fluid legal and taxation regimes and uncertain economic prospects.

But if the bankers succeed, they could help stimulate a wave of debt offerings playing an important part in reversing Russia's chronic under-investment and sparking economic growth.

With massive natural resources to pledge as collateral, Russian government and corporate borrowers have enormous scope to gear up their balance sheets. Bankers suggest Russia could quickly become one of the world's most dynamic participants in the international debt markets.

This week the Moscow city government will test the receptiveness of international investors when it begins a road-show for the issuance of up to $500m in eurobonds.

Many of Russia's other 88 regions have also hired western investment banks to launcb eurobonds, with St Petersburg and Nizhny Novgorod likely to be next. Standard & Poor's, the US credit rating agency, has rated all three cities BB–, the same as the sovereign rating.

But some analysts believe subsequent eurobonds will be slower to hit the markets, with few deals likely this year. The tax privileges attached to the sovereign eurobond are unlikely to apply to other issuers, complicating the bankers' sums.

The government is also anxious to prevent new issues from crowding out investors needed for its own sovereign borrowing programme and wants to reinforce Russia's credibility by ensuring that only high-quality issues are offered to international investors.

It is therefore insisting that only regions which are net contributors to the federal budget can issue eurobonds. Moreover, the volume of debt cannot exceed 80 per cent of a region's annual budget revenues.

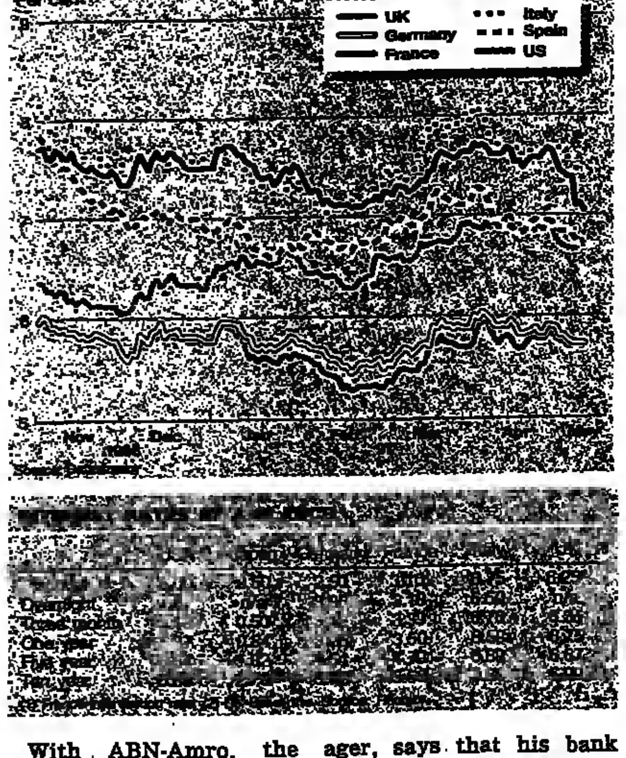
Mr Andrei Kozlov, a deputy chairman of the central bank, says so far only Moscow, St Petersburg, and Nizhny Novgorod have won government approval to issue eurobonds. "The government will co-ordinate issuance both domestically and abroad. I do not expect a flood of new issues," he says.

While they are waiting for the international offerings, bold investors might consider domestically-issued Russian regional debt. Deutsche Morgan Grenfell says 52 Russian regions had issued rouble-denominated debt instruments, worth a total of about Rbs9,000bn ($1.7bn) by the start of the year.

Many of these issues offer some of the highest yields available anywhere in the world; but they do so for a reaeon. Mnch of this regional paper is of extremely questionable quality, with poor documentation and minimal liquidity.

More secure issues may come from Russia's most reputable corporations. Several are preparing international debt offerings but they too may be stymied by government restrictions.

US investment bank Goldman Sachs, which briefly entered the Russian market in the early 1990s before quitting in frustration, has signalled its return by winning a mandate to advise Gazprom on how to raise $2.5bn.



With ABN-Amro, the Dutch bank, Goldman Sachs is understood to be exploring the underwriting of a bridging loan, to be quickly followed by a syndicated loan of about $1bn. Thereafter, it is considering a whole menu of options, including secured and unsecured bonds and convertible debt issues.

Meanwhile, Dresdner Kleinwort Benson and Morgan Stanley, which arranged Gazprom's $429m equity placement last year, continue to work on the gas group's hunger for capital. Dresdner Bank has already raised $2.5bn for Gazprom via a eyndicated loan.

The more sophisticated of Russia's new generation of commercial banks are also increasingly looking to raise capital abroad to build np their loan book to casb-starved industrial concerns.

Several banke have already attracted foreign capital by means of syndicated loans. For example Oneximbank, one of Russia's largest banks, this month raised $50m through a syndicated loan arranged by Citibank. This followed a $50m issue of floating-rate notes, led by Merrill Lynch earlier this year.

Mr Alexander Popov, Oneximbank's treasury manager, says that his bank intends to issue $200m of eurobonds this eummer, after obtaining an international credit rating.

"The maturity of borrowings for a syndicated loan is commonly about six to 12 months. But a eurobond gives us the possibility to have longer-term borrowings, from three to five years, which is important for e Russian bank trying to extend the maturity of its assets and liabilities," he says.

Mr Victor Papadopoulos, chairman of London Forfaiting Asia, a specialist finance house which has arranged several syndicated loans for Russian banks, says Russian entities should be able to borrow far more cheaply in future as investors become more familiar with the country.

Banks may soon be able to borrow capital at a cost of less than 400 basis points over Libor – the London interbank offered rate – compared witb 450 points last year.

"But if a bank failed, it would send margins back into the heavens," he says. "That is why, the central bank has a very important role to play in regulating the market. Confidence is king."

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Coca-Cola Amatil	300	May 2002	6.75	99.527R	6.865	+22(6⅝%-Apr02)	SBC Warburg
ABB Finance Inc	250	Jun 2004	6.75	99.47R	6.848	+20(6⅝%-Apr02)	UBS
Banco BCN Barclays(k)	100	May 2005	(b1)‡	99.566R	9.110	+255(6⅞%-02)	BZW
[illegible](c)‡	100	May 2001	(c1)	99.640R	-	-	Bear Stearns/Yamaichi
Tatrira (Cayman) Invs	75	May 2002	9.75#	99.74R	9.817	+325(6⅝%-02)	Deutsche Morgan G'fell
Handlowy Finance(d)	50	May 2000	7.125	99.953R	7.143	+60(5⅞%-Feb00)	JP Morgan Securities
AT&T UCMT, Class A(h)‡	850	Apr 2002	(h1)	100.00	-	-	Lehman Brothers
LSK	500	May 2002	6.75	99.80R	6.799	+43(6⅝%-Apr02)	CSFB/Goldman Sachs
Morgan Guaranty Tst Co NY	500	May 2002	6.75	99.618R	6.843	+18(6⅝%-Apr02)	JP Morgan Securities
Assocs Corp of N America‡	500	May 2002	(j)	99.837R	-	-	JP Morgan/M Stanley
Unibank(k)‡	200	May 2007	(k1)	100.00	-	-	JP Morgan Securities
Hitachi Finance	150	Jun 2000	6.625	99.89R	6.867	+12(6⅝%-May00)	Goldman Sachs/IBJ Intl
Sybba Bank	100	May 2002	8.75#	99.88R	8.780	+220(6⅝%-02)	ABN Amro/Merrill
Furnas Centrais Electr(m)	90	May 2005	9.00#	99.678R	9.082	+243(6⅝%-02)	JP Morgan Securities
Sitosa Funding(n)‡	83	Apr 2002	(n1,s)	100.00	-	-	ING Barings
Lehman Brothers Holdings‡	300	Jun 2002	(r)	99.783R	-	-	Lehman Brothers Intl
D-MARKS							
Daimler-Benz(a)§	993.32	Jun 2002	5.75#	139.50	-	-	Deutsche/Goldman
RBS(p)‡	750	Jan 2001	(p1)	100.005	-	-	Deutsche Morgan G'fell
World Bank(f)	500	Dec 2001	4.625	100.765R	4.424	+41(5⅜%-May01)	WestLB
BNG	300	Jun 2002	4.625	99.58R	4.726	+19(4¾%-Nov01)	ING Barings/Paribas
LW Rentenbank(f)	250	Jun 2001	4.25	99.53R	4.380	+5(5¾%-May01)	ING Barings
YEN							
T-Deal(q,s)★	25bn	Feb 2000	5.20#	100.00	-	-	Daiwa Europe
Marston Underwriting(No1)(x)(v)‡	60bn	Jan 2004	(x1)	100.00	-	-	Sanwa International
STERLING							
World Bank(l)	750	Jun 2002	7.00	99.792R	7.049	+2(7%-Jun02)	BZW
UBS (London Branch)(e)	250	Nov 2004	7.375	99.513R	7.474	+39(6¾%-04)	UBS
Electricité de France(t)	100	May 2000	6.50#	100.10	6.383	-	Nomura International
Paris, Series 1(p)‡	128.9	Apr 2004	(p1)	100.00	-	-	Citibank International
Carlton Communications(y)	200	Jun 2007	7.625	99.295R	7.729	+65(7½%-Dec06)	BZW
Kingdom of Denmark	100	May 2000	6.25#	100.155	6.193	-	Nomura International
FRENCH FRANCS							
Merrill Lynch & Co(s)	1.5bn	Nov 2002	5.125	99.89R	5.155	+32(8½%-Nov02)	Merrill Lynch Finance
SWISS FRANCS							
Abbey Natl Treasury Services	200	Jan 2003	3.00	101.50	2.726	-	CSFB
National Australia Bank	100	Jun 2002	2.75	101.50	2.428	-	Deutsche Morgan G'fell
ITALIAN LIRE							
European Investment Bank(g)	250bn	Feb 2007	7.00	100.255	6.955	-	BNP/IMI Lux/San Paolo
Parmalat Finance‡	650bn	Jun 2001	(o)	100.00R	-	-	Credito Italiano
Republic of Argentina‡	500bn	May 2004	(i)	99.98R	-	-	Deutsche Morgan G'fell
World Bank(t)‡	175bn	Jun 2007	(t1)	100.00R	-	-	Cariplo
GUILDERS							
ING Bank	700	May 2007	6.00	99.00R	6.137	+47.3(l)	ING Barings
PESETAS							
Norddeutsche Landesbank	10bn	Jun 2001	5.60	101.17	5.288	-	BCH
AUSTRALIAN DOLLARS							
New Sth Wales Trsy Corp	100	Jun 2007	7.50	98.82	7.673	-	Hambros Bank
State Bk of New Sth Wales	100	Jun 2002	7.25	100.95	7.018	-	Hambros Bank
NEW ZEALAND DOLLARS							
Kingdom of Sweden	100	Jun 2002	7.75	101.22	7.449	-	Hambros Bank
RAND							
Rabobank Nederland	250	Jun 1999	15.125	100.165R	15.02	-	Toronto Dominion Bank
World Bank	400	Jun 1998	15.25	100.75	14.38	-	Hambros Bank
ZLOTYS							
International Finance Corp(u)	150	May 1999	zero	70.00R	19.52	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. #With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Mandatorily convertible at price set at maturity between DM151.62-104.56. Shareholders pre-emption rights (1:66 at DM130.70 face value). b) Callable & puttable on 15/5/02 at par. b1) 9% to 15/5/02, then 9¼. c) Callable from May 02 at par. c1) 3-mth Libor +30bp to May 02, then +105bp. d) $150m launched 30/4/97 was increased to $200m. e) Underlying: Triple-A rated EU sovereign securities. e1) 3-mth Libor +6bp. f) Fungible with DM500m. Plus 164 days accrued. g) Fungible with L1,000bn. Plus 120 days accrued. h) Universal Card Master Trust. Legal maturity: 16/4/04. h1) 3-mth Libor +6bp. h2) Class B: $80m, 17/4/02 expected, 3-mth Libor +28bp, par. i) Over interpolated yield. j) 3-mth Libor +6¼bp. k) Callable from May 04 at par. k1) 3-mth Libor +40bp to May 04, then +190bp. l) Long 1st coupon. m) Callable & puttable on 23/5/02 at par. n) Indirectly secured by Thai baht loan/lease receivables. Average life: 1.5 yrs. n1) 3-mth Libor +16bp. o) Redeemed in US$. p) Backed by commercial mortgages. Expected maturity: 4.83 yrs. Average life: 3.58 yrs. p1) 3-mth Libor +24bp. p2) Series 2: £3.7m, 3-mth Libor +40bp, par, av life 4.83 yrs. q) 3-mth Libor +37½bp. r) 3-mth Libor +160bp. s) Short 1st coupon. t) Callable from Jan 00 at par. t1) 12-mth Libor +20bp, max 8¼%. u) R200m launched on Tuesday was increased to R400m. v) 3-mth Libor +30bp. w) Redemption in US$. x) Callable annually from 12/6/98 at par. x1) 3-mth Libor -10bp. y) Spens call provision. Note: Yields are calculated on ISMA basis.

NOTICE OF PUBLIC SALE

Under Section 9-504 of the New York Uniform Commercial Code and pursuant to the Indenture dated as of April 29, 1996 (the "Indenture") among Argentine Cellular Communications (Holdings) Limited, as issuer ("ACC"), Bankers Trust Company, as trustee and registrar (the "Trustee"), and Morgan Grenfell & Co. Limited, as nominee and custodian, the collateral security (the "Collateral") generally described below will be sold at public sale on Friday, May 30, 1997 at 10:00 a.m. (New York City time), by an auctioneer (the "Auctioneer"), for the benefit of the holders (the "Noteholders") of U.S. $27,910,000 principal amount of senior secured notes and U.S. $26,194,890 principal amount of junior secured notes (collectively the "Notes"), at the law offices of Milbank, Tweed, Hadley & McCloy ("Milbank Tweed"), 48th Floor, One Chase Manhattan Plaza, New York, New York.

The Collateral consists of all of the shares of stock (the "CAI Shares") in Compania Austral de Inversiones (Cayman) Limited ("CAI"), a wholly owned subsidiary of ACC, incorporated under the laws of the Cayman Islands, and all right, title and interest of ACC in respect thereto. CAI is an investor in a joint venture with GTE Mobile Communications International Incorporated ("GTE") and other investors whose purpose was to design, construct and operate a cellular telecommunications system in Argentina. Pursuant to said joint venture, the Trustee is informed that CAI owns approximately 24.5% of the outstanding common stock in each of two operating companies (the "CTI Operating Companies"): (i) CTI Compania de Telefonos del Interior S.A., and (ii) CTI Norte Compania de Telefonos del Interior S.A., each a corporation organized and existing under the laws of Argentina and each with a license to design, construct and operate a radio cellular telecommunications system in Argentina.

The CAI Shares are subject to a right of first refusal in favor of GTE, entitling GTE to purchase the CAI Shares upon the same terms and conditions as the public sale, exercisable within 30 days after receipt by GTE of written notice from the Auctioneer disclosing the proposed terms of the public sale. In addition, CAI has made an assignment of voting rights entitling GTE to vote the shares of the CTI Operating Companies except with respect to certain specified matters.

The shares of the CTI Operating Companies are subject to a first priority security interest in favor of certain lenders to the CTI Operating Companies (including, without limitation, Citibank, N.A. and the Overseas Private Investment Corporation), and a second priority security interest in favor of certain shareholders of the CTI Operating Companies (including, without limitation, GTE and its affiliates, TCW Americas Development Association, LP, The Argentine Investment Company and Telfone S.A.) who have provided credit support in favor of certain significant lenders to the CTI Operating Companies.

Pursuant to a certain Note Purchase Agreement dated as of April 29, 1997, the CTI Operating Companies may, from time to time, issue additional indebtedness convertible into shares of common and preferred stock of the CTI Operating Companies. Any such conversion would have a dilutive effect on the percentage ownership of the common stock of the CTI Operating Companies currently held by CAI.

The foregoing summary of the Collateral is for general information purposes only and is qualified in its entirety by the detailed contractual arrangements referred to above. Neither the Trustee, the Auctioneer or any Noteholder makes any representation, either express or implied, as to the status of CAI or the CAI Shares, or respecting the assets, liabilities, financial condition or prospects of CAI, the CTI Operating Companies or as to any other matter whatsoever. The Collateral will be sold on an as-is, where-is basis, without recourse, representation or warranty of any kind whatsoever.

UNDER NO CIRCUMSTANCES SHALL THIS NOTICE OF SALE CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE COLLATERAL IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH JURISDICTION.

The Collateral will be sold only as a block and will not be split up and sold in lots. The Trustee reserves the right, in its sole discretion, to adjourn the sale to a future date by giving notice thereof at the sale without the necessity of prior notice or further publication.

The bidding will be limited to those who are "accredited investors", as defined in the United States Securities Act of 1933, as amended (the "Securities Act"). Each bidder will be required to execute and deliver to the Trustee, on or prior to May 28, 1997, an investment letter which, among other things, represents and warrants that: (i) such bidder is financially sophisticated and can afford the risk of a highly speculative investment in the CAI Shares; (ii) such qualified bidder (x) plans to acquire the Collateral for its own account for the purpose of investment and with no present intention of distributing or reselling the Collateral or any part thereof and (y) will not resell the Collateral without complying with the registration requirements of the Securities Act or pursuant to a valid exemption therefrom; and (iii) such other information as the Trustee may reasonably deem necessary.

Each qualified bidder must prequalify to bid by registering with the Auctioneer at least 24 hours prior to the auction and (i) in the case of those looking to credit bid, by demonstrating to the Auctioneer its ownership of Notes and depositing such Notes with the Trustee at the inception of the auction and (ii) in all other cases, by depositing with or delivering to the Trustee immediately prior to the auction a bid bond in the form of a federal funds wire for at least U.S. $1 million. The Trustee's wire instructions are: ABA No. 021-001-033, Account No. 01419647 at Bankers Trust Company, New York, New York. Prior to wiring, a facsimile transmission should be sent to Dorothy Robinson at Bankers Trust Company so that she may expect such wire (Fax No.: (212) 250-0933). All Notes and bid bonds will be held by the Trustee as security against default by any bidder in completing the sale if its bid is accepted. At the conclusion of the auction, the Auctioneer will arrange for the Trustee to return to each losing bidder its respective Notes and/or bid bond.

The first round of bidding will be by sealed bid delivered to the Auctioneer by 10:00 a.m. (New York City time) on May 30, 1997. The minimum amount of each bid must be U.S. $5 million. Any party that does not submit a sealed bid meeting the minimum requirements will be barred from further bidding. Each Noteholder reserves the right to credit bid all or part of its debt in its own name, or to cause a nominee, designee or assignee to so bid, without cash deposit.

Upon completion of the sale, the Auctioneer will immediately notify GTE of the price and terms of sale and afford GTE an opportunity to exercise its option to purchase the Collateral pursuant to its right of first refusal (the "Option").

If GTE exercises the Option, and notifies the Trustee of its intent to purchase the Collateral, the Trustee will return to the public sale bidder any Notes or bid bond it has retained, with invested interest thereon. The Trustee shall not be liable for losses on such investments. Otherwise (i.e. if the Option is not exercised), the closing of the sale (the "Closing") will be scheduled by the Trustee to take place in London, England approximately 31 days after the auction.

At the Closing, the successful foreclosure bidder (the "Purchaser") will be required to pay to the Trustee, for the benefit of the Noteholders, as their interests may appear under the Indenture, by 12:00 p.m. (London time), an amount equal to 100% of the amount bid, in U.S. dollars, in immediately available funds (or in the case of a credit bid, the balance of the purchase price not covered by credit bid Notes). The sale shall not be deemed completed or concluded until full and final payment is received by the Trustee.

The Auctioneer shall not be obligated to make any sale or accept any bids pursuant to this notice and reserves the right to approve or reject any bid or bids at said sale or any adjournments thereof. Additional or amended terms and conditions of sale may be announced at any time prior to or at the sale, or any adjournment thereof.

The Trustee will make available to qualified bidders, upon request, certain information about CAI and the CTI Operating Companies (the "Information") (i) to the extent such information has been delivered to the Trustee, and (ii) upon execution by such qualified bidders of a confidentiality and limited use agreement which qualified bidders can obtain by request from the Trustee.

All documents and other information required to be executed by each qualified bidder should be delivered to the Trustee, attention Stanley Burg, either by facsimile transmission to (212) 250-6961 or by courier or by first-class, registered mail, or the closest local equivalent thereto, to the office of the Trustee at Four Albany Street, New York, New York 10006, attention Stanley Burg.

If you require further information, please contact Allan Gropper, Esq. of White & Case, counsel for the Trustee, at (212) 819-8403, or Stanley Burg of the Trustee, at (212) 250-6526.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

Dec	93.63	93.72	+0.1	93.75	93.60	128,589	331,523

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.70	94.73	+0.06	94.74	94.70	247	5,834
Sep	94.50	94.52	+0.08	94.53	94.50	90	3,721
Dec	-	94.50	-	-	-	-	-

All Open Interest figs. are for previous day

Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Singer & Friedlander	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.25
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	TSB	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	United Bank of Kuwait	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.25	Western Trust	6.25
Bank of Scotland	6.25	●Hill Samuel	6.00	Whiteaway Laidlaw	6.25
Barclays Bank	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.00
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25		
●Brown Shipley & Co Ltd	6.25	Investec Bank (UK) Ltd	9.25		
Citibank NA	6.25	Julian Hodge Bank	6.25		
Clydesdale Bank	6.25	●Leopold Joseph & Sons	9.25		
The Co-operative Bank	6.25	Lloyds Bank	9.25		
Coutts & Co	6.25	Midland Bank	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.25		
		●Rea Brothers	6.25		

● Members of London Investment Banking Association

* In administration

OTHER STATISTICS

STOCK INDICES

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

[illegible]

BANK RETURN

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Allied Domecq	♣	428½	0.0	23.60	1.4	Feb Jul	2.12	1550
Bulmer (HP)	[illegible]	535	-1.2	13.55	2.5	Feb Sep	13.1	2005
[illegible]	[illegible]	[illegible]	-2.5	3.4	1.2	May Nov	7.4	1518
Glenmorangie A	†	[illegible]	1.1	12.27	3.0	Jan Jul	9.12	2257
B	†	1070	[illegible]	9.14	3.0	Jan Jul	9.12	–
Grand Met	♣	515	0.3	15.9	1.9	Apr Oct	6.1	2759
Guinness	[illegible]	519½xd	1.8	16.1	2.2	May Nov	1.4	2791
Highland	[illegible]	325xd	1.0	8.4	2.5	Jan Jun	8.5	2880
5¼pc Cnv Bds		96	–	–	–	–	31.1	–
Kirin Y		[illegible]	[illegible]	[illegible]	–	Sep Mar	25.12	1119
Matthew Clark	[illegible]	270	-2.4	24.0	0.0	Apr Oct	3.2	2183
Merrydown	[illegible]	90½	–	8.0	1.9	Jan Oct	16.12	3352
Seagram C$		[illegible]	-1	[illegible]	–	[illegible]	28.11	–

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
BG	[illegible]	179xd	3.2	14.5	0.7	Jul Dec	6.5	2448
Centrica		60½	2.1	–	–	–	–	2051
International Energy	[illegible]	94xd	5.0	4.45	Φ	Jan Nov	6.8	5138

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

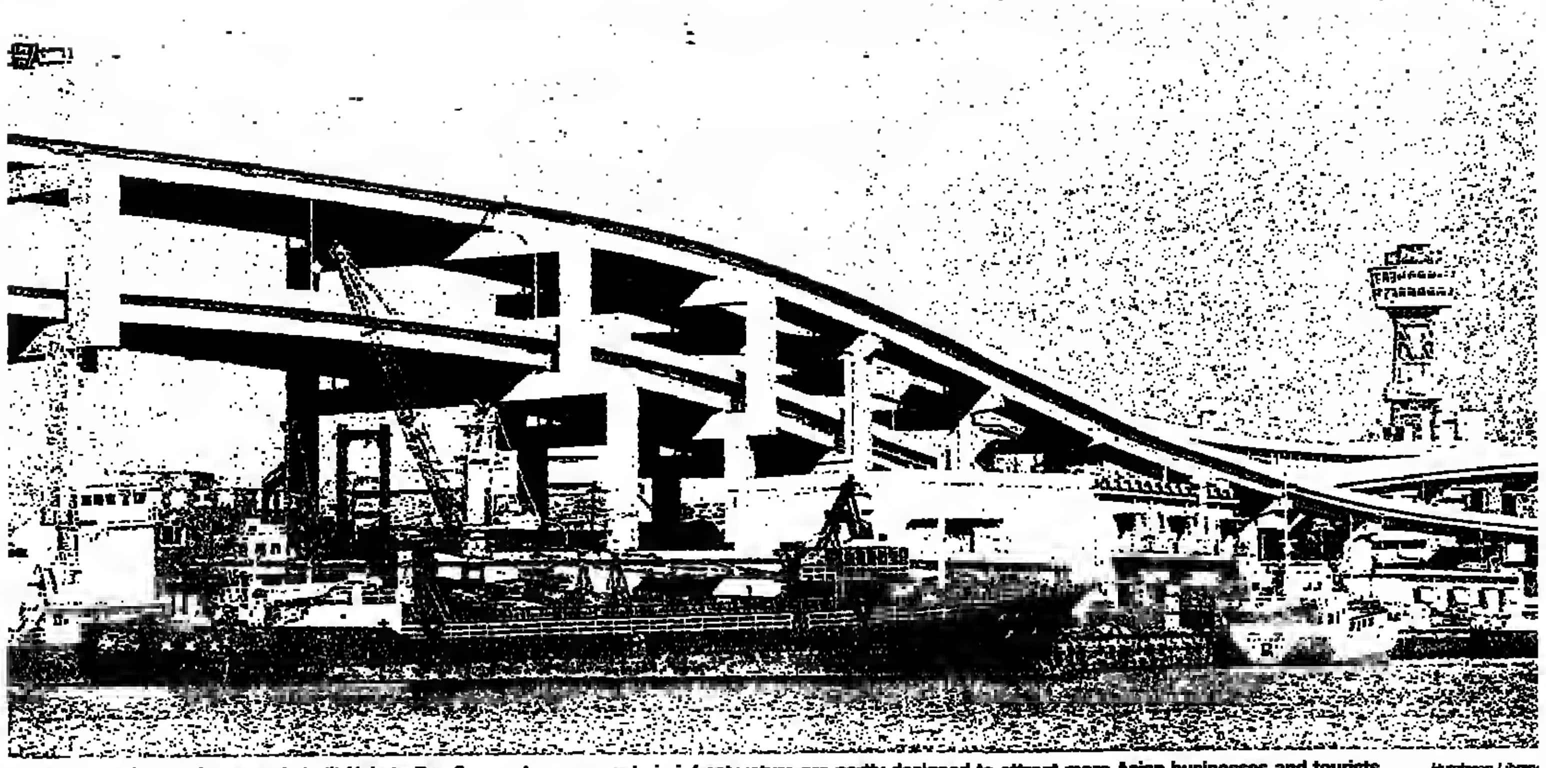
INV TRUSTS SPLIT CAPITAL

[illegible]

Fukuoka

The Japanese prefecture aims to become a gateway to the fast-developing economies of Asia. But, says **Michiyo Nakamoto**, it is an identity shift that will need careful handling

New role for the new millennium



Bridge to the future: the recently built Hakata Bay flyover. Improvements in infrastructure are partly designed to attract more Asian businesses and tourists *Hutchison Library*

Ask anyone in Fukuoka what distinguishes the prefecture from other parts of Japan and the chances are that they will mention its proximity to Asia.

Situated on the northern edge of the island of Kyushu, Fukuoka boasts a distinct culture and vibrant economy that in part reflect its advantage of being situated closer to the Asian continent than most parts of Japan.

In the past, that proximity gave Fukuoka, which this week hosts the Asian Development Bank's annual meeting, a national role as the starting point for official missions from Japan to China. Hakata port, in Fukuoka city, prospered by trade with China, Korea and other regions in the South China Sea from the 15th to 17th centuries. Hakata Ori, the distinctive silk weaving that the region is famous for, was introduced from Sung China 750 years ago.

Today, Fukuoka is once again looking to Asia for inspiration in identifying a role for itself in the 21st century. "We believe that our relationship with Asia will become more and more important," says Mr Tatsuta Goto, chairman of the Fukuoka Chamber of Commerce and Industry.

Fukuokans like to point out that the region is closer to leading cities in South Korea and China than it is to Osaka or Tokyo. According to Mr Kenji Takimoto, president of Asia Business Centre, an independent consultancy based in Fukuoka, the prefecture, indeed the whole of Kyushu Island, should consider itself a part of Asia rather than of Japan.

This renewed love affair with Asia is understandable: to many Fukuokan business and government leaders, the dynamism of Asian economies contrasts starkly with the stagnation that seems to characterise the Tokyo-based Japanese establishment.

In Fukuoka, the vibrancy of Asia's economies is noticeable in the large and increasing number of tourists from Asian countries, the growing presence of Asian businesses and the rising volume of trade between the prefecture and its Asian neighbours.

Nearly 90 per cent of visitors to Fukuoka prefecture in 1995 were from Asia. Of these, 50 per cent were from Korea. The number of visitors from Asian countries, particularly Taiwan and Korea, quadrupled last year at Space World, a theme park in Kitakyushu. According to Mr Tsutomu Ishihara, senior manager of promotion at the Port of Hakata, eight of the 10 new shipping routes established since 1993 are between the port and Asian countries.

Trade with Asian countries is a key feature of the ecooomy. In 1995, exports from Fukuoka to its neighbours in Asia came to Y291.4bn, or 42 per cent of the total, while imports from Asia amounted to Y687.4bn – 64 per cent of the total for the prefecture.

Against this background, it is perhaps not surprising that many business and government leaders believe that Fukuoka's future lies in cultivating relations with Asia, rather than in trying to seek a role within a Tokyo-dominated Japan.

Fukuoka's desire to capitalise on its proximity to the growing economies of Asia has spurred moves to modernise infrastructure in order to attract more business and tourism.

The Port of Hakata, which is celebrating its 100th anniversary next year, is in the midst of a massive building project that will add an artifical island with residential, leisure and port-related facilities.

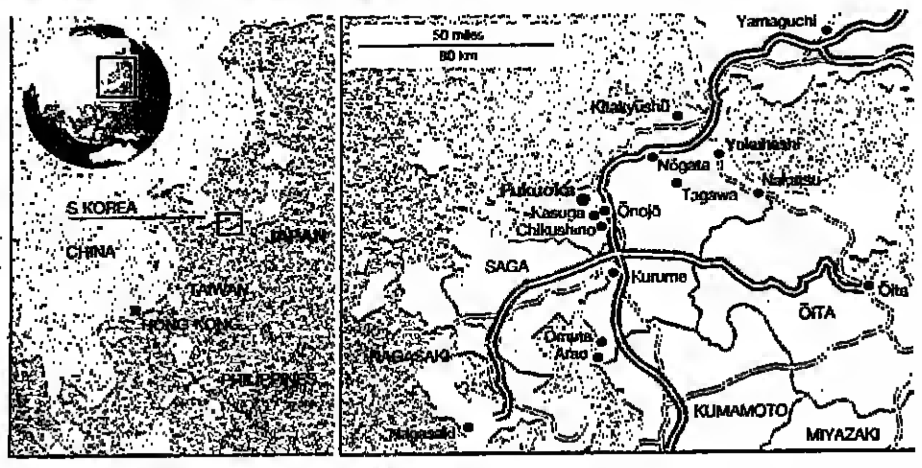
A redevelopmeot rush in Fukuoka, comparable with the construction blitz that characterised other regions several years ago when Japanese asset prices were soaring, has seen the erection of multi-purpose domes, conference halls and leisure and retail complexes.

Cultural programmes focused on Asia and initiatives to promote intra-regional relations have taken root in both the public and private spberes. September has beeo designated Asia month in Fukuoka and various events are held to introduce Asian art and culture to the community. A children's conference has been held annually for the past nine years: about 400 childreo from all over Asia and their chaperones are invited to Fukuoka to stay in Japanese homes and compare ootes with local students.

Yet, there is concern that the rallying cry among business and government leaders to look towards Asia, and all the excitement it has generated, lack substance. Fukuoka could be left with little more than under-used conference halls and vague ideas about how its Asian connection might provide an alternative to the manufacturing industries that have hitherto supported it.

"The main issue for us is what role we can play as the gateway to Asia," Mr Goto notes.

In what way can Fukuoka contribute to the growth of Asia? What should the prefecture's particular strengths be, within the context of wider regional development? These are the key questions.



The business community and government believe that the ADB conference in Fukuoka city can provide an important opportunity to answer them.

According to Mr Goto, holding a prestigious conference such as the ADB, increases local awareness of Asia and of Japan's role in Asia. "It is necessary not only for us to be aware of this role but also to inform the rest of the world of it," he says.

Fukuoka's role in Asia is already being defined in a variety of ways by a variety of people.

As Japanese manufacturers move their lower-end production activities overseas, particularly to Asian countries with lower costs, Fukuoka can help channel the necessary technologies from Japan to Asia, notes Mr Hiroshi Morimoto, director of research at the Kyushu Ecooomic Research Centre.

Its concentration of manufacturing expertise, built up over the years at the local plants of leading Japanese companies, and its large number of uoiversities, strong in scientific research, make the prefecture an ideal place to play that role.

The Fukuoka prefectural government, led by Mr Wataru Aso, the governor, is promoting the development of Fukuoka as a base for new businesses, ranging from software to biotechnology. It has been investing actively in venture businesses and supporting closer co-operation between the public sector, private business and academic institutions.

The governor, who was formerly with the Ministry of International Trade and Industry, has made the promotion of new businesses one of the mainstays of his policies. The prefecture's spending on veoture investment has doubled from Y500m over 10 years to Y1bn over the same period.

Mr Takimoto of the Asia Business Centre believes Fukuoka should invest in information communications infrastructure and assume the role of a regional base for the information communications industry. He is promoting the idea of Fukuoka as a testing site for the Malaysian super corridor programme, which aims to invest in advanced multi-media.

At the same time, the promotion of international conferences, the building of new leisure facilities and improvements to transportation infrastructure are supporting Fukuoka's development as a regional service and leisure base.

But much more needs to be done if Fukuoka is to make a smooth transition from an economy that is based on manufacturing to one that is driven by newer and more promising growth industries.

First of all, it must cut more decisively the umbilical cord that ties it to Tokyo: in spite of all the talk about Asian connections, Fukuokans, many people say, still have a psychological dependence on the capital. If it relies too heavily oo Tokyo and its protracted bureaucratic procedures, Fukuoka might miss its chance to take advantage of the great advances being made in Asia, particularly in the field of info-communications, Mr Takimoto points out.

To become an Asian regional centre the prefecture also needs even better transportation infrastructure, such as an international airport that can serve as a regional hub.

Given the rapid developments taking place in expanding economies in Asia, the oext few years will be a tough test of the prefecture's ability to make the best of what it has.

INTERNATIONAL LINKS • by Bethan Hutton

Seeking symmetry with the Asian tigers

Commercial and cultural ties to its neighbours will raise Fukuoka's status worldwide

The citizens of Fukuoka are very proud of their cosmopolitan beritage. They point to a large golden seal, unearthed in the area and said to bave been brought by an eovoy of s Chinese emperor of the Han dynasty in AD57, as evidence of a long history of pan-Asian links. And, as any Fukuokan can tell you – and probably will – the city is closer to Pusan or Shanghai than it is to Tokyo.

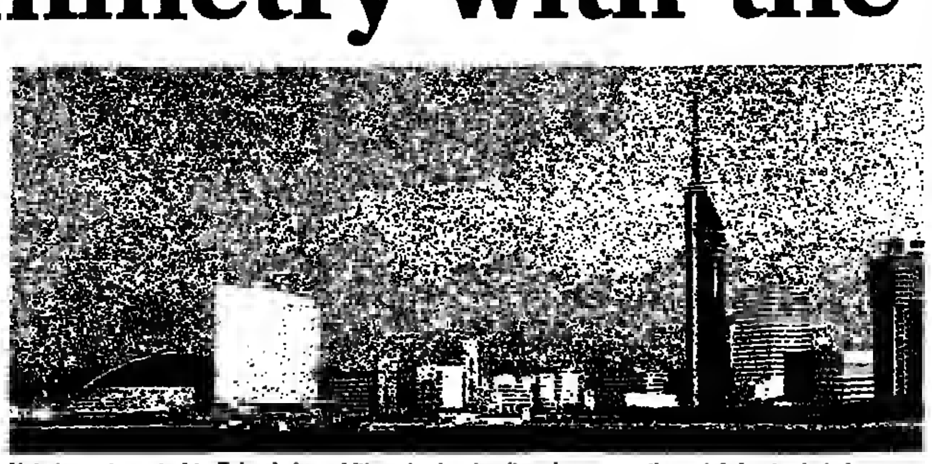
Of course, that history of close cross-border ties has been chequered. It was travellers from China and Korea who, passing through tbe port of Hakata (the old name for Fukuoka), introduced some of the foundations of Japanese culture – tea, Buddhism, and ceramics – but the Sbogunate's seclusion edicts put paid to Fukuoka's role as a gateway to Asia. Japan was all but closed to foreigners from the mid-17th to mid-19th centuries and, wben the country was reopened, the focus of its international relations had switched to the US and Europe.

Tokyo became Japan's only really international centre.

Now, bowever, the tide is turning again. Fukuoka has recently woken up to tha fact that its proximity to Japan's increasingly dynamic neighbours in the Asia-Pacific region creates buge opportunities.

"In 1987, Fukuoka city decided its goal was to become an international hub for relations with Asian countries," says Mr Junichiro Nakashima, director of the city's international planning section. Since then, the local government has been promoting that goal.

Fukuoka has gone through all the usual means of establishing international links – it has sister-city relationships or other established ties with nine cities in Asia, Europe, the US and New Zealand – but it has also come up with some novel ideas of its own. And although the main aim is clearly commercial, in terms of attracting conferences and trade to the city, Fukuoka has also taken troubla to promote cultural links.



Hakata port: central to Fukuoka's ambitions to develop its role as a north-east Asian trade hub

September in Fukuoka is Asia Month, when residents and guests from other Asian countries put on shows, cinemas run Asian films, and there is s grand parade with Asian-themed floats through the city centre.

Schoolchildren from other Asian countries are invited to join an exchange programme with local pupils.

The number of Asian students at Fukuoka's universities has rocketed in recent years, and an Asian museum is under construction.

Fukuoka's growing number of foreign residents helps maintain a year-round image of the city as cosmopolitan and pan-Asian – even the subway has signs in English, Chinese and Korean.

There are flights from Fukuoka airport to 23 cities aronnd the Asia-Pscific region, as well as all the big Japanese cities. Flight times to destinations in Korea and China beat flight times from Tokyo by about an hour or so, but what really makes the difference in travelling time and stress levels is the closeness of Fukuoka airport to the centre of town: it is less than 15 minutes by frequent and efficient subway, compared with one or two hours from Narita airport to central Tokyo, depending on means of transport and time of day.

As a result of a building boom in the late 1980s and early 1990s, Fukuoka is now generously supplied with hotels, stadiums and conference centres large enough to cope with almost any event.

Last November the Asia-Kyushu Regional Exchange Summit brought together representatives of 27 Asian regions to discuss sustainable economic development and environmental problems in Asia. In 1995, Fukuoka bosted the Universiade, or student olympic games. This month's Asian Development Bank meeting will be the largest and most prestigious international gathering so far.

Large-scale events attract the most publicity but there is plenty of activity at a level that can touch local people more directly. Dozens of small societies promote different kinds of international exchange or cultural activities. The Fukuoka International Exchange Foundation (FIEF), set up by the prefectural government, arranges avents for both Japanese natives and foreigners living in the region. Mr David Vroland, an Australian co-ordinstor at FIEF, wbo has lived in the area for three years, last year arranged a tour for an Australian aboriginal dance troupe.

While the promotion of convention business and cultural links has been very soccessful to date, inward investment and tourism have been slower to take off. The city and prefectural governments are no doubt hoping that if enough people visit Fukuoka for a conference, some will come back to establish subsidiaries – or just for a holiday.

While Fukuoka is a provincial city that will never be as truly cosmopolitan as Hong Kong or Singapore, it does have a role as a north-east Asian centre for trade and international events. It has all the advantages of Japan's advanced stage of development, infrastructure and communications, but none of the drawbacks of a huge metropolis such as Tokyo.

Distances from Hakata

Port	Distance (nautical miles)
Yokohama	803
Oakland (US)	6,091
New York	10,237
Shanghai	502
Keelung	706
Sydney	4,545
Dubai	5,971
Hamburg	11,057

Source: Port of Hakata

CULTURAL IDENTITY • by Michiyo Nakamoto

Mini-Tokyo with a mind of its own

The prefecture wants its people to do more than slavishly follow the capital's lead

Fukuoka is a region that is struggling to maintain its cultural identity.

In the past, its proximity to China made it a centre for cultural development as Japan avidly absorbed Chinese influence in everything from art to literature. Government missions to China set off from Fukuoka, which some scholars believe is the site of Yamatai, the ancient kingdom referred to in the Chinese chronicle Wei Zhi.

Its history as a bridge between Japan and Asia has nurtured an open-mindedness towards the ontside world. "The people of Fukuoka are very accepting of new things," says Mr Toru Koga, cultural news editor of the Nishi-Nippon Shimbun, a regional daily.

A corollary is cultural inventiveness. "Many new things are born in Fukuoka," says Mr Koga.

Oppekepei, a style of theatre in which the performer satirises the world about him, originated in Fukuoka in the late 19th century.

Festivals that are still leading national attractions, such as the Hakata Dontaku held in early May, reveal both the influence of foreign cultures and the distinctive, fun-loving character of the local people. Apart from the colourful parades end lively music, the Dontaku, whicb attracts the largest number of festival-goers in the country, features wandering participants who stop anyone thay come across on the street to tell tham a pun. The name Dontaku is said to derive from the Dutch word for Sunday, Zontag.

Today, bowever, the propensity to look outside for cultural inspiration means that all eyes are turned towards Tokyo.

"Fukuoka is a region where the influence of Tokyo is very strong. Young people in particular look towards Tokyo so that it seems that they have lost their own cultural identity," says Mr Hiroshi Tamari, manager of the Fuknoka office of Yoshimoto Kogyo, an agency that trains and manages a wide variety of performers.

The cultural invasion from Tokyo is evident in the forms of entertainment Fukuoka now provides. Gekidan Shiki, a dramatic tronpe boasts high attendances in Fukuoka: it originated in Tokyo. The city's Dome, a covared stadium, brings in people from far and wide to enjoy not only baseball games but also musical performances: it is modelled on tha Tokyo Dome.

"We in Fukuoka tell each other, with a hint of self-criticism, that we have become like a mini-Tokyo," laments Mr Koga. "The local dialect, for example, is disappearing very quickly."

Unlike natives of Osaka, where tbe local dialect is proudly and very conspicuously spoken, Fukuoka people tend only to use their own language in private.

But Fuknokans are not just passive receptors of outside influences.

The region itself has given birth to nationally famous musicians, artists and writers, many of wbom have established new genres. "Fukuoka people are very expressive," says Mr Koga.

Dontaku festival: shows Fukuoka's diverse cultural heritage Kyodo

Yoshimoto Kogyo, the leading Osaka eotertainment company, has set up an office in Fukuoka in order, Mr Tamari says, to find new musical talent.

The hope for many Fukuokans is that given the abundance of naturally expressive, talented people in the region, tbey can develop their own distinct culture.

Many look to Asia for inspiration. "We want to create a distinctive culture," says Mr Koga. "Being a gateway to Asia is one way to do so."

Public leaders are actively promoting Fukuoka's links to Asia not just through formal events sucb as the 1997 Annual Confarence of the Asian Development Bank, which is being held in Fukuoka this week, but also through cultural exchanges and other programmes.

Fukuoka Daiei Hawks, the local baseball team, recently appointed Sadaharu Ob, a former slugger witb the Tokyo-based Yomiuri Giants as manager. Mr Oh is a national bero of Chinese descent. Daiei, the retailer that owns the Hawks, is said to have been keen to promote the region's Chinese links as a way of gaining a foothold in the promising Chinese market.

Arguably tbe most important key to the development of a distinct Fukuoks culture is the dynamism of the local economy. The buoyant economy has supported the construction of leisure facilities such as the Dome and the Hakata-za, the first large theatre in the city for traditional performing arts, and of conference halls, botels and shopping malls.

"Fukuoka is becoming a central city in Japan," notes Mr Tamari.

It might have a tendency to adopt outside influences rather than protect its own culture but in the long-term this might not matter. "By accepting influences from the outside I believe it will create a unique mixture that is its own," says Mr Tamari.

THE FOREIGN COMMUNITY • by Bethan Hutton

Temperature rises in melting pot

Sometimes, all the talk of cosmopolitanism seems to have a hollow ring

Fuknoka's push for internationalisation over the past few years means more foreigners are coming to the area to work or study, or even put down permanent roots.

Foreign residents are hardly a novelty – there have been Chinese and Korean residents in Kyushu for hundreds of years, and Fukuoka, as a key trading port, has been home to many of them – but their current numbers and variety are unprecedented.

The foreign population of Fukuoka city has expanded rapidly, from 7,631 in 1980 to 13,351 by the end of 1995, while the foreign population of the prefecture as a whole had grown to more than 36,000 by tha end of last year. By far the majority of these – nearly 24,000 – are Korean nationals.

The past five years, however, have seen a decline in the number of Koreans and a growth in the Chinese population. Both Koreans and Chinese tend to be long-term residents. Europeans, Australians and north Americans, on the other hand, are more likely to be shorter-term students, English teachers or employees on temporary transfer.

Mr Li Xianzhang, chairman of the Fukuoka Overseas Chinese Residents Association, says that Chinese immigrants are following patterns found all over the world: tbe first generation most often run restaurants, but their children grow up to be doctors, accountants and computer specialists. They are also integrating into Japanese society, even to tbe extent of speaking Japanese at home, and marrying Japanese people.

According to Mr Li, the majority of overseas Chinese in Fukuoka eventually take Japanese nationality. Japanese passports are more welcome internationally, he points out.

Koreans, on the other hand, are mainly classed as permanent residents. Many do not take Japanese citizenship, even if they and their parents were born in Japan. This means they can be subject to bureaucratic – and sometimes degrading – discrimination: the government only recently agreed to phase ont regular fingerprinting of permanent residents. Non-Japanese citizens are barred from long-term "career-track" posts within local government, and are discriminated against by many larger companies.

> Many still prefer not to hire non-Japanese employees

Despite Fukuoka's international image, local foreign residents say that racial bias is no less prevalent than anywhere else in Japan.

The people of Fukuoka might be happy with the theory of internationalisation and the festivals and conferences that are its public face, but many of them still prefer not to let an apartment to a non-Japanese tenant, or hire a non-Japanese employee.

Local authorities are trying to improve the lot of the immigrant, bowever. Tbe Fukuoka International Exchange Foundation runs an advisory centre that offers belp with employment and immigration problems and provides information on Japanese law. It also publishes newsletters in English and various other languages.

Last month, another source of information for foreigners was launcbed: Love FM, a foreign-language radio station based in central Fukuoka. It broadcasts mainly in English, but also has programmes in Korean and Chinese and public service announcements in other Asian and European languages.

The government started to issue licences to foreign-languaga broadcasters two years ago. The first station opened in 1995 to coincide with an Apec meeting in Osaka, the second in Tokyo in April 1996, and the third, Love FM, has broadcasted in time for this week's Asian Development Bank conference in Fukuoka.

Unlike its counterparts in Tokyo and Osaka, Love FM is trying to keep a local identity. It has recruited mainly foreigners who have been resident in Fukuoka for some time, rather than professional DJs from outside the region. It also puts less emphasis on music than the other two stations. "We want to provide useful information for foreign residents," says Mr Daisaku Hisata, managing director.

Despite such close targeting, the majority of Love FM's listeners are Japanese. This might only be a good thing: there seems to be a need to educate the indigneous population. Ms Yonsoo Kwon, a Korean DJ at Love FM and a long-term resident of the city, has noticed the increasing cosmopolitan mix of people on the streets but says that attitudes have not necessarily changed.

"I don't think Fukuoka is less prejudiced compared with other cities in Japan," she says.

Ms Kwon does believe, however, that it is an easier place to live. The many similarities in culture and language between Kyushu and southern Korea help Koreans feel at home, she says. Even the local delicacy – spicy fish roe – is also a favourite in Pusan.

For foreign visitors or residents, Fukuoka may offer a more accessible introduction to Japanese culture and society than can easily be found in a city like Tokyo, while still providing the support and services needed by non-Japanese residents, such as an international school.

PROFILE The Toyota Kyushu plant

Looking for local deals for wheels

The car maker has yet to build a network of suppliers native to the region

Toyota makes cars all over the world, but it is less than five years since it opened its first Japanese plant outside its stronghold in Aichi prefecture.

The Toyota Motor Kyushu assembly plant in Fukuoka, which opened in December 1992, is Toyota's most modern factory, making Chaser and Mark II cars for the domestic market, as well as some parts such as bumpers and fuel tanks for other models. It can produce up to 200,000 cars annually.

Toyota's plans for operations in Kyushu go back a long way: it has owned the site of the current plant for more than 25 years. Manufacturing was initially delayed by the first oil shock of 1973. Plans for production were reactivated in the late 1980s, however, when predictions of a labour shortage in ceotral Japan made Toyota turn to its vacant plot in Kyushu.

There were fewer large manufacturers competing for staff in Kyushu but Toyota still found itself having to transfer workers to Kyushu from its other locations.

"Because Kyushu has mostly raw materials-based industries, it did not have so many skilled workers for processing and assembly industries," says Mr Yuzuru Mamizuka, senior managing director at the Kyushu plant. "However, there are new graduates from Kyushu universities who have technical skills. It is not a bad location for recruiting engineers."

The plant: local skills shortages mean that it has had to be adapted for female and older workers

The plant was designed so that women and older people could work on the production lines as easily as young men, so widening the pool of suitable staff.

The level of automation is lower than at the previous generation of Toyota plants, but still ensures that workers are relieved of the beaviest and most tedious work – they are assisted by the robots, rather than the other way round.

One of the characteristics of the Japanese manufacturing system is a network of long-term suppliers that works in symbiosis with the manufacturer itself.

When Toyota established the Kyushu plant, it made sure that it would be abla to obtain locally some of the parts that are difficult or expensive to transport across long distances. However, a complete network of local suppliers has yet to grow up around the plant.

"It requires time," says Mr Mamizuka, "possibly even 10 or 20 years."

After taking 20 years to open the plant, it would seem that Toyota is willing to wait.

Bethan Hutton

ECONOMY • by Michiyo Nakamoto

The provincial pioneer

The region can be seen as setting Japan's economic agenda as well as following it

With a gross domestic product of Y17,780bn, (£86.48bn) and two leading cities in Fukuoka and Kita kyushu, Fukuoka prefecture is recognised by many as the economic centre of Kyushu, which lies to the south of the main island of Honshu.

In Fukuoka city, construction work will add to those landmarks, such as the Dome all-weather stadium and the Canal City retail compler, that have made Fukuoka a magnet for young people in the region.

On the waterfront, several vast development projects are taking shape. A centrepiece is an artificial island in the middle of Hakata Bay. The island will incorporate residential areas, s science park, hird ssoctuary and marina, and will provide greater port capacity.

Meanwhile, in Kitakyushu, a rival metropolis to the north, the building of the city's own multi-purpose dome and artificial island has begun.

All this construction work suggests ao even more dynamic Fukuoka in the years ahead.

Business leaders explain that part of tha reason for the economic huoyancy is relative immunity to the collapse in Japanese assets prices.

Encouraged by a boom in asset prices in the 1980s, hankers in areas such as Tokyo and Osaka used property as collateral for a large number of loans. When prices subsequently collapsed, thay were left with bad debta. Kyushu, in contrast, did not experience high asset-price inflstion and was therefore less vulnerable wheo the slump came. "Bad loans are a thing of the past in Kyushu," says Mr Tatsuta Goto, chairman of the Fukuoka Chamber of Commerce and Industry and chairman of Nishi Nippon Bank.

At the same time, Fukuoka is benefiting from modern manufacturing plant. "As large Japanese companies have restructured and have moved to position their manufacturing activities at the most efficient facilities, many factories have beeo closed in eastern Japan. But manufacturing facilitles in Kyushu were built relatively recently so they are new and have been expanded," points out Mr Hiroshi Morimoto, director of research at tha Kyushu Economic Research Centre.

Nissan Motor has closed its plant in Zama, just outside Tokyo, and moved production to its state-of-the-art facility in Fukuoka.

Another reason for Fukuoka's economic vitality is its proximity to the growing economies of Asia. According to Mr Atsushi Kimuro, manager of the chamber of commerce division of the prefectural governmeot office, this increases its attractiveness to companies keeo to exploit oew markets.

For example, semiconductor manufacturers based io Fukuoka are able to carry out specislised work io Japan and complete assembly in south-east Asia.

Geographical links to the rest of Asia are helping to clinch hig business deals. Samsung and Daewoo, the Korean conglomerstes, are setting up offices in Fukuoka. There is hope that a oew Samsung car factory in Pusan, just across the Sea of Japan, will look to procure components from Kyushu – where the presence of big Toyota and Nissan factories has led to the growth of car parts suppliers.

Small and medium-sized companies, regional banks and government hodles based in Fukuoka, have all been setting up offices in Asian countries.

Meanwhile, a growing number of tourists from neighhouring Asian countries has increased spending at leisure parks, shopping malls and other attractions.

The business and cultural exchanges that have developed between Fukuoka and other parts of Asia have in turn fuelled the construction of infrastructure.

Kitakysushu is heing developed as an Asian hub with the backing of the Ministry of Transport. Hakata Port, which serves as a gateway to international commerce, saw total shipments grow 29 per cent with Taiwan, 35 per cent with China and 26 per cent with Singapore in volume terms in the year to March, 1996.

The prefectural government and local business community have activaly supported the growth of links to Asia, which they believe will be vital to maintaining a vibrant economy. Strong local support was needed, for example, to bring the annual general meeting of the Asian Development Bank to Fukuoka this year.

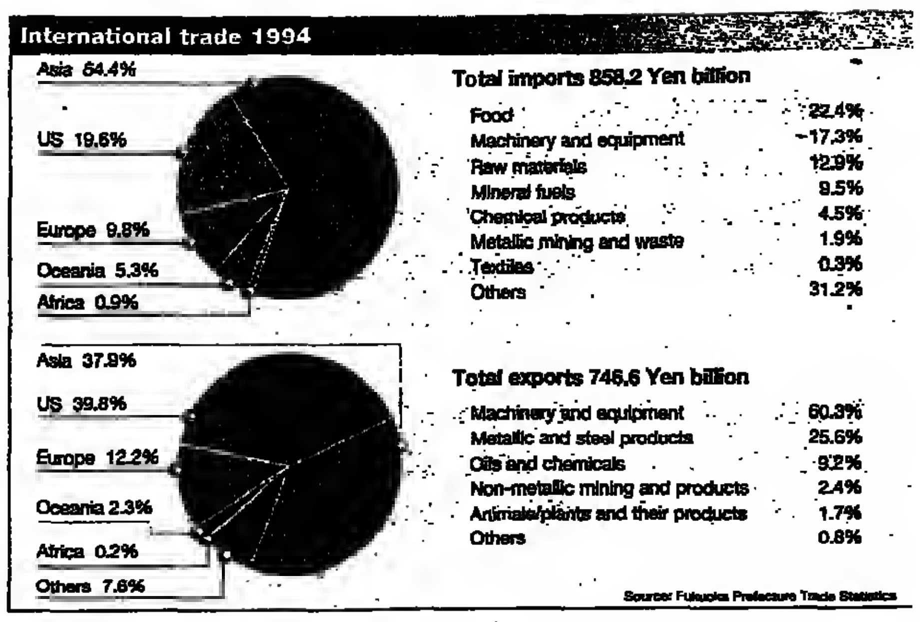
The local community saw the ADB meeting as an opportunity to make Japan's Aslan neighbours more familiar with Fukuoka and to discuss the role that it might play in intra-regional relations, notes Mr Goto.

New businesses are another focus of economic development. In addition to supplying venture capital funds totalling Y10bn over 10 years, tha prefectural governmsnt has established programmes aimed at better exploiting Kyushu's resources, including academic institutions and the technological know-how accumulsted through years of industrial development.

The hope is that stronger ties to Asian neighbours and conference services and leisure and software industries will replace heavy industry as the motor of Fukuoka's economy.

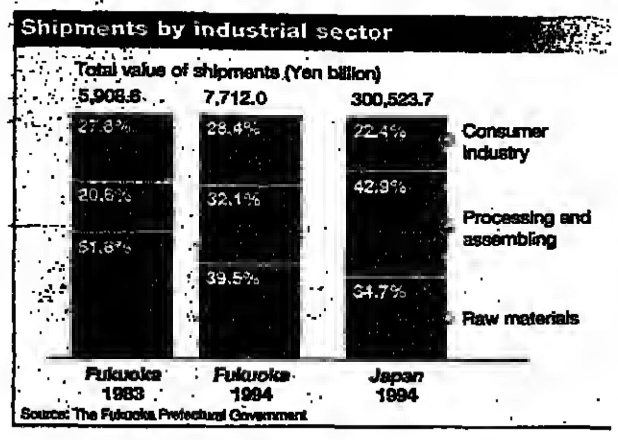
"In comparison with the past, when Fukuoka used to follow Tokyo's lead in economic development, this time tha region is taking a pioneering role," Mr Morimoto says.

International trade 1994



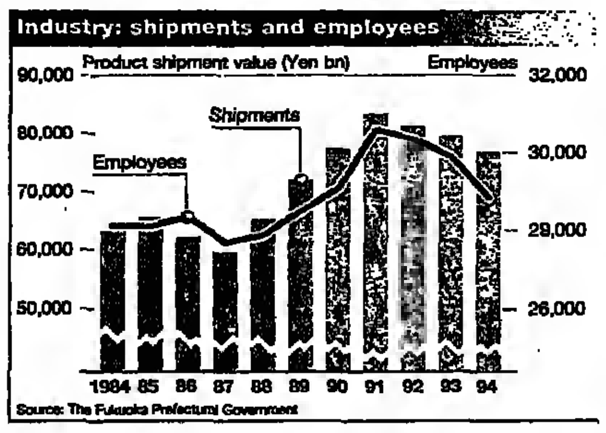
Source: Fukuoka Prefecture Trade Statistics

Shipments by industrial sector



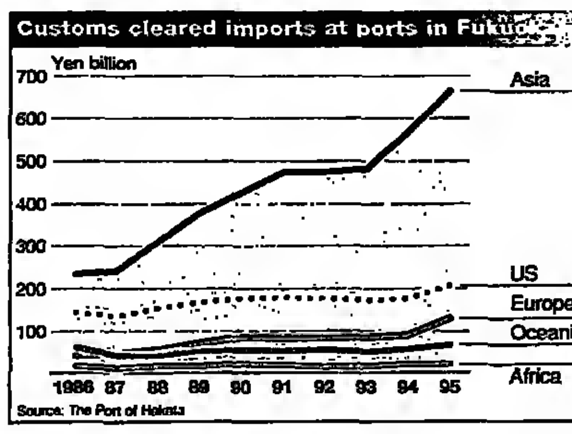
Source: The Fukuoka Prefectural Government

Industry: shipments and employees



Source: The Fukuoka Prefectural Government

Customs cleared imports at ports in Fukuoka



Source: The Port of Hakata

SMALL BUSINESSES • by Bethan Hutton

Noodle sellers out, chip makers in

New government initiatives are encouraging more start-ups in the high-tech sector

Fukuoka has a reputation as a place where new businesses thrive. Listing on the Fukuoka stock exchange has been the first step to national success for a number of companies. The best known, however, are restaurant chains and other service sector companies; in an age where softwara and high-tech industries are seen as the future, local authorities are hoping to change that emphasis.

One statistic that worries them is that Kyushu sccounts for just 0.9 per cent of all patents registered in Japan – well below the proportion to be expected for its share of the population.

Accordingly, the Fukuoka prefectural government has announced its plan to turn Fukuoka into another Silicon Valley.

Some of the strategy is fairly standard – science and husinesa parks, long-term loans for sciantific-based venture businesses. Four science parks have already been established in the prefecture. Mora grandiose, however, is tha Northern Kyushu Science Cities Development Plan, which aims to link all the higher education institutes and research centres in Fukuoka and six other cities to form a high-tech network.

Traditionally in Japan commerce and academia are seen as two separate worlds. Kyushu, which has an abundance of educational establishments, wants them to converge. "The first thing is to promote exchanges hetween academic circles and research institutes and businesses," says Mr Seiichi Tanaka, of Fukuoka's new industry and technology division.

Fukuoka has the second highest concentration of students in the country, after Kyoto, and many of them are at specialist technological or engineering universities and colleges – ideal material for building a Japaness Silicon Valley. However, s high proportion of graduates end up looking for work on Japan's main island of Honshu, where the largest companies are based.

Similarly, many of Fukuoka's brightest young people go awsy to Japan's most prestigious universities, concentrated in Tokyo and Kyoto. After graduation, they generally settle away from their home towns.

To encourage the process known locally as "u-turn" – coming home to Kyushu after working or studying elsewhere – a special scheme has heen set up. Under it, postgraduate entrepreneurs aged under 35 are offered funding of Y15m for two years, and space in an "incubator" laboratory, as well as help in establishing a company.

The prefactural government is also investing directly in small venture businesses in high-tech sectors. A driving force behind all these projects is the prefectural governor, Mr Wataru Aso, who was a senior bureaucrat in ths Ministry of international Trade and Industry before hecoming governor two years ago. One of his first acts was to implement a policy of venture business promotion, and double the 10-year investment budget to Y10bn.

This year, the prefecture has Y700m to lend to small venture companies. A third of the funding comes from the prefecture itself, and two-thirds from central government.

"The demand for investment is very high here," says Mr Kenya Ishida, head of the new industry and technology division of the Fukuoka prefectural government. "In other prefectures where they are implementing the same policy, they have money, but do not have enough companies to invest in. We do not have enough money because so many companies request investment. I think in four or five years' time we will see a lot of companies going public or expanding into world markets."

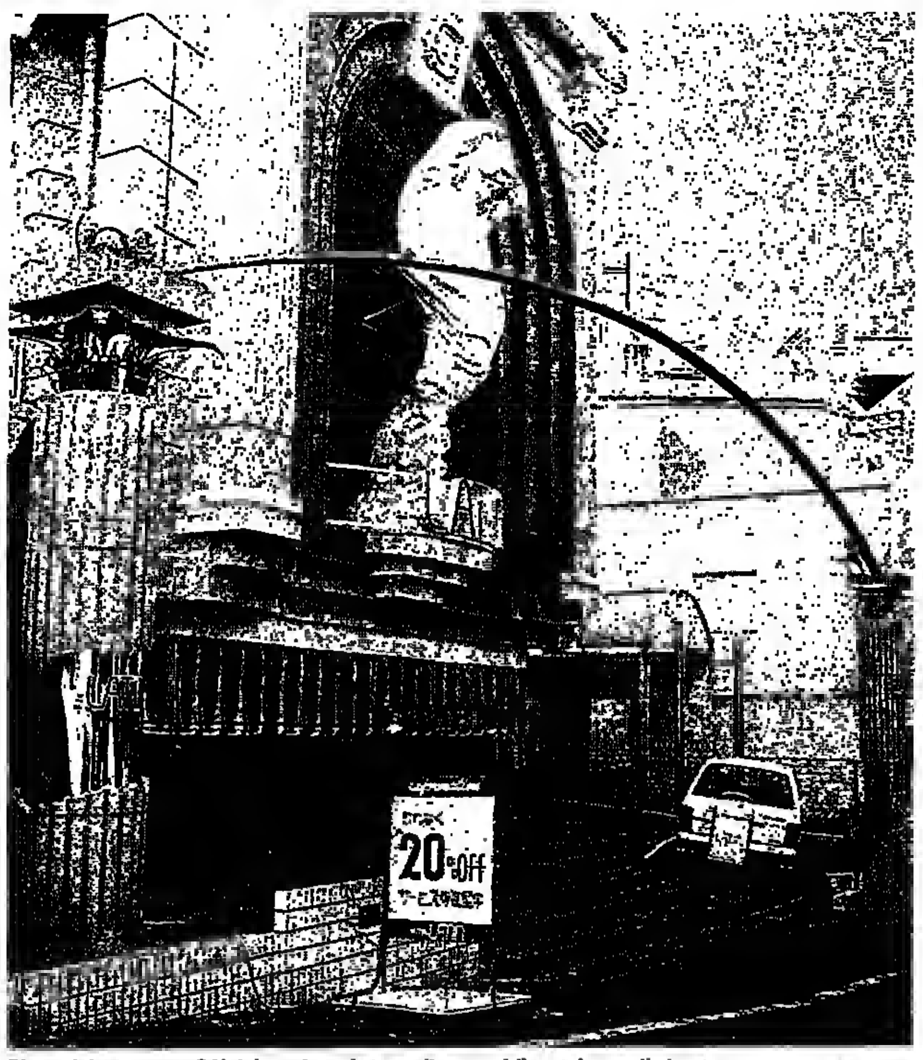
Promoting venture capital businesses is a popular idea all over Jspan at the moment, hut Mr Ishida says that the difference in Fukuoka is that the local government is providing administrativa support as well ss money and acting as a co-ordinator between different sectors.

Central and local government play a key role in promoting business start-nps and development, but even hureaucrats are sware of the need to get the private sector involved.

"The prefectural government does not want to do everything, so we will help those people to meet, and the rest will be up to the private sector and the individual companies," says Mr Ishida.

The next big project, due to open later this year, is Venture Plaza Fukuoka – a forum designed to help marry providers of capital, technology and human resources and the small companies that need them.

No-one quita knows why Fukuoka should be a hreeding-grouod for more would-be entrepreneurs than the rest of Japan, but it seems that once the first few steps to encouraging enterprise are taken, a trend develops. When the government started promoting venture businesses, it created more demand than it could supply. Thia has recently prompted a number of large venture capital investment companies to open offices in Fukuoka, hringing the total to 11. Grester availability of funds means more venture businesses will be drawn to the area; it might not be too long before the Fukuoka stock exchange becomes better known as the launching pad for high-tech companies than noodle chains.



Pillar of ths economy? Hotels and services can't support the region on their own *Hutchison Library*

PROFILE Yaskawa Electric

Motor for the economy

An ability to adapt its product range has served the 80-year-old company well

Yaskawa Electric is one of Kyushu's best-known corporate names. From humble beginnings more than 80 years ago, making basic electric motors, it has grown into s highly sophisticated manufacturer of robots and industrial electrical equipment.

Yaskawa – named after the founding family, one of whom still sits on the board of directors – was established in 1915 as part of the pre-war Meiji industrial group, but is now an independent company, listed on the first aection of the Tokyo stock exchange. More than a quarter of its products are exported, and it has subsidiaries and joint ventures in Europe, Asia and the US. Its biggest product area is mechatronics, including robots, inverters and servo controllers.

Traditionally, Yaskawa supplied the heavy industries that grew up in the area now known as Kitakyushu. But as reserves of coal in the region dwindled, and Japanese costs rose, many of those industries closed or moved abroad.

This means the company has had to adapt its product range. Yaskawa has been developing robots since the 1970s. Its Motoman series of industrial robots – the first in Japan – is continuously evolving and can be found oo production lines all over the world. More recently, the company has been involved in a Jspanese government-sponsored micromachine research project, as well as in the development of robots for use in fields such as medicine.

In order to provide s steady supply of qualified staff, Yaskawa founded a technical university – the Meiji Engineering Technical College. This has since become a national academic institution and has been renamed the Kyushu Engineering University, hut is still one of the main sources of graduate recruits for Yaskawa. A number of other technical universities and specialist colleges has sprung up in the area to complement it.

Yaskawa's long presence in the region has also led to the growth of smaller, supplier companies. These provide components for Yaskawa or do contract work for it. The company says, however, that such a network does not amount to the kind of keiretsu (vertical conglomerate) structure that is typical of many of Japan's largest manufacturers.

Bethan Hutton

COAL • by Will Dawkins

Light at the end of the tunnel?

How the closure of Miike mine, a pillar of the community, is being managed


Workers at Miike mine, which closed in March: all have been offered other jobs *Kyodo*

Fukuoka, like many regions that used to host traditional basic industries, is learning to cope with change.

At the end of March, it had to make a wrenching adjustment to the advance of competitive market forces into hitherto protected corners of the Japanese economy. The residents of Omuta, a small coastal town bid farewell to what had been a central part of their community for more than a century – the largest and oldest coal mine in Japan, the Miike pit.

Mitsui Coal and Mining, owners of the pit, had concluded it could not compete against cheap imported coal, after racking up losses amounting to billions of yen over many years. Imported coal comes off the boats from Australia at one third of the price of Japanese coal, which is rendered hopelessly costly to produce by the need to dig into Japan's deep and unstable deposits at wage costs that are among the highest in Asia.

Coal is just one illustration of a broader trend, known in Japan as hollowing out. Large parts of Japanese industry have been closed, or moved to cheaper locations in east Asia over the past two decades as new foreign competition has forced companies such as Mitsui and communities such as Omula to make uncomfortable choices.

Until recently, Omuta's Miike mine was kept alive by an artificial, but costly, drip feed. Its source of support was an unwritten agreement between Japanese electricity companies and the Ministry of International Trade and Industry, under which power suppliers purchased 5 per cent of their coal from domestic mines at high domestic prices.

Power companies naver liked having to pay so much to support the coal industry, especially when they stood to benefit nothing from Miike'a continned survival. Finally, last year they had the courage to refuse to overpay for Miike's coal, citing in their defenca a demand by Mr Ryutaro Hashimoto, the prime minister, to cut Japan's internationally high domestic electricity prices by a fifth by the end of the decade. Clearly, Mitsui could not afford to keep the mine open and cut prices.

After the closure of Miike, Japan will have a negligible coal industry – just two small pits, one in Hokkaido in the north and one in Nagasaki in the south, down from a peak of 680 in 1960. The demise of coal is greeted with a resigned shrug by those in the industry.

"We knew several years ago that closure was inevitable," says Mr Kenzo Yamada, general manager of the Miike coal union.

The union's attitude is remarkable given that its forerunner's resistanca to joh cuts led to the longest strike – 282 days – in Japanese history in 1959 and 1960.

Learning to accept the inevitable has not heen easy, however. Coal has been mined, on and off, at Miike since the 15th century; coal is part of the local culture. The mine, which opened 124 years ago, aupported the race for industrial growth at the end of the 19th century, the war effort and post-war reconstruction. It was the site of Japan's worst mining accident, when 458 people died in an undarground explosion in 1963. An oil painting of the tragady hangs in the lohby of Mr Yamada's union office and almost everyone in the town knows an injured survivor. Coal is part of the scenery in every sense, as abandoned miners' homes near Omuta railway station testify.

The crude economic impact of industrial decline will, as it always is in Japan, be aoftened by generous state and company handouts. All redundant workers have been offered jobs, plus a pension worth just over half the basic wage. Those still in company housing have been offered alternative accommodation. The problem, of course, is that they are all local people and only half the new jobs on offer are in Omuta.

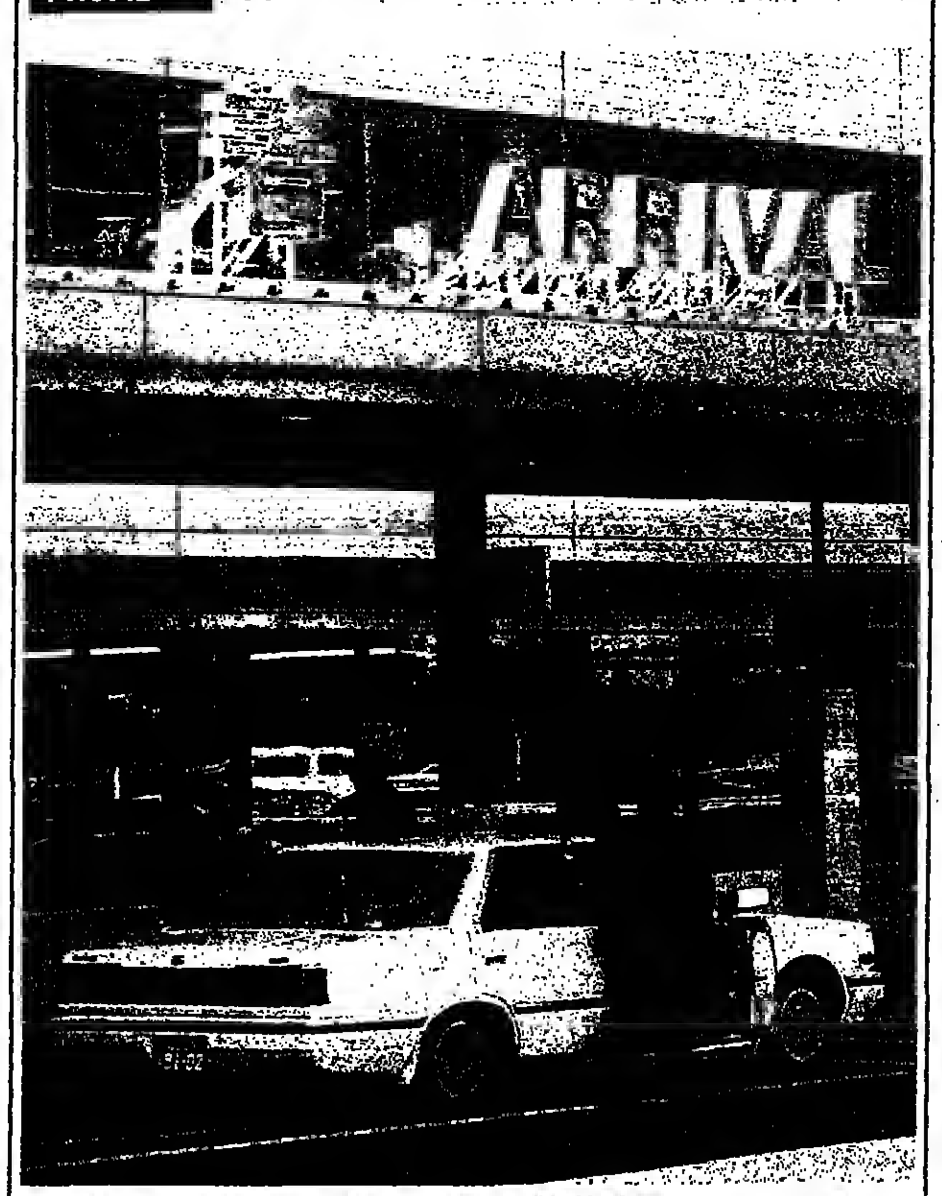
Sadly, the paucity of new local jobs is hardly surprising. Omuta has been in economic decline for years. Its population now atands at just 140,000, a third below the 1960s peak as a result of successive job cuts at the mine. Former miners have been found the usual unproductive service joba reserved for their kind, such as work at the local "Mitsui Greenland" theme park. But there is little room for more.

The answer, says Mr Takashi Kurihara, Omuta's mayor, is to create economically sustainabla jobs, rather than, as other areas hit by industrial decline have done, throw money at more theme parks. It will by definition be a long-term project to restore the 10 per cent of Omuta's economy removed by the mine closure.

The city government has accelerated a Y59bn development plan for a technology park, the conversion of the mine's seaport to general use and highway improvement. Tha cost is shared with central government. This might, hopes Mr Kurihara, stimulate tha growth of mining related business, such as environmental equipment and chemicals.

Job creation achemes of this type have many parallels in areas of industrial decline in Europe. What is strikingly Japanese about Miike is not so much what is being done to ease the shock, but how the closure has been planned meticulously over the long term.

PROFILE Pan-Asia Airlines


Fukuoka airport: obtaining flight slots is a competitive, political business *Hutchison Library*

Some turbulence before take-off

Despite the need for its services, Fukuoka's new airline has hit political barriers

Late last month, Fukuoka became home to one of Japan's rarest breeds – the new airline.

Pan-Asia Airlines, which was established by Academia International, an employee training company, is one of three new companies to be set up in Japan's highly regulated airline industry, dominated by a trio of big companies since the end of the war.

The airline is the brain-child of Mr Yoshimi Hirota, who founded Academia and is president of the new company. A former purser with Pan American Airlines, Mr Hirota was driven by the conviction that stronger ties between the Kyushu region and the rest of Asia create the need for better transportation.

"Somebody has to provide a bridge between Asian countries and Japan," Mr Hirota says. "When you look at Asia from Japan, Fukuoka is the natural place to huild that bridge."

Mr Hirota noted that the problems of poor infrastructure were particularly acute for those travelling to China from Japan and Taiwan. According to Mr Takayuki Matsuo, a cousultant at Sanwa Research Institute who is advising the fledgling company, Pan-Asia Airlines can cnt travelling times by offering early-morning and late-night flights from Japan to cities in China.

"Academia International has been training employees of Japanese companies who are sent to Asian countries, and they have had a problem with transportation infrastructure," Mr Matsuo notes.

The supporters of Pan-Asia Airlines believe that there are also significant gaps in the market for domestic flights. For example, the earliest flight from Okinawa, at the southern end of the Japanese islands, to Tokyo is at 9am and does not get in until 11.30am. Were Pan-Asia Airlines to offer a flight departing at 7.00am and arriving at 9.30am it would free up a good part of the morning for husiness, Mr Matsuo says.

As well as the husiness logic of supply and demand, there is another, more personal, reason why Mr Hirota decided to set up an airline. His joh with Pan-Am had left him with a strong desire to revive the company in Japan – in spirit if not in actuality – and a belief that an airline with the management skills and the service quality of the Pan-Am would undoubtedly succeed.

"Pan-Am was a multi-national airline that had people from various countries working for it. About 1,000 employees of the company were left in Japan after the company closed and we kept in touch," he explains.

Mr Hirota saw that the start of the deregulation of the airline industry by the Ministry of Transportation was the perfect opportunity to realise his dream.

But even in Fukuoka, with its reputation for open-mindedness and its puhlic support for venture businesses, starting an airline was difficult.

Raising funds was not the problem. Initial capital of Y150m will be provided hy a group of investors, led by Mr Hirota, Mr Tatsuo Kawai, chairman of Kyushu Electric Power, and Mr Zengo Ishimura, president of Ishimura Manseido, a local confectionery maker.

The main difficulties in getting Pan-Asia Airlines off the ground have heen stringent regulatory barriers and local and industrial politics.

In spite of its apparent support for deregulation, according to Mr Hirota, "the Ministry of Transport is reluctant to allow newcomers into the market".

Winning recognition as an airline requires political lobbying while ohtaining airport slots is also a very competitive, political business that must be conducted not only in Tokyo hut locally as well.

The transport ministry's strict standards mean it is very difficult to hire foreign pilots, while a gentleman's agreement in the industry prohibits pilots from leaving an airline and flying for another company immediately. Pan-Asia is planning to hire foreign pilots but Mr Matsuo says there are doubts about whether they will have the patience to pass the ministry's painstaking tests which, arguably, do not measure the pilot's ability to fly a plane safely.

Equipment is another prohlem. Although there are many used planes available cheaply in the US, the expensive husiness of obtaining authorisation in Japan for them cancels out any cost savings.

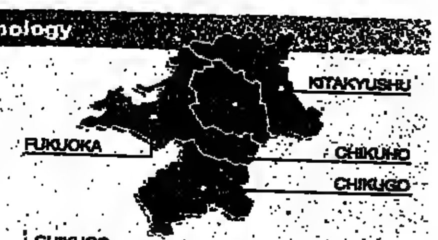
Local sensitivities must also be taken into account. Although Pan-Asia Airlines has taken great pains to win acceptance among the Fukuoka business community by informing as many business leaders as possible of its plans, those who hava not been informed have puhlicly criticised the company. "Fukuoka is open in some ways but closed in other ways," Mr Matsuo notes.

Pan-Asia Airlines says that for the first year or two it will offer domestic services only: the transport ministry is being cautious about letting it enter the international market immediately.

But Mr Hirota believes the time is right for a company like Pan-Asia Airlines to succeed. "Everybody knows Japan has to change," be says.

Michiyo Nakamoto

The prefecture's role in advanced technology



Representative companies

FUKUOKA
- Nippon Tungsten (Magnetic head for computers, fine ceramics)
- Kyushu Matsushita Electric (Kanji character word processors, printers)
- Mitsubishi Electric (Total IC* manufacturing)
- Kansai Koso (Quasi drugs)
- Kyushu Noritake (Fine ceramics)
- Rohm Amagi (Resistors, transistors)

KITAKYUSHU
- Mitsubishi Chemical (Nitric acid for IC, high purity rare-earth)
- Nippon Steel (Seamless steel pipe)
- Nippon Steel Chemical (Carbon fibre)
- Yasukawa Electric (Industrial robots, casting components for robots)
- Mitsui High-Tech (IC lead frame, metallic mould for lead frame)
- Toshiba (Total IC manufacturing)
- Rohm Fukuoka (Chip resistors)
- Yoshitomi Pharmaceutical Industry (Antibiotics, rearranging genes)
- Buzen Toshiba Electronics (Assembling of IC)

CHIKUGO
- Apollo Electronics (Transistors)
- Nichibei Denshi (Devices for education)
- Kyushu Matsushita Electric (Information connecting devices)
- Fukuoka NEC (Assembling of IC)
- Mitsui Toatsu Chemicals (Anticancer, CI chemical)
- Mitsui Metal Mining (Super hard alloy materials)
- Mitsui Miike Machinery (Remote control coaling system)

CHIKUHO
- Fukuoka Toshiba (Assembling of IC)
- Kyushu Mitsumi (Floppy disc)
- Medisa Shinyaku (Antibiotics)

* Integrated circuits

Source: The Fukuoka Prefectural Government

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind R		£25	—	0545c	ϕ	May Oct	2.9	-
Barlow	‡	£9¾	-1.0	0105c	3.3	Jan Jul	8.12	-
Gold Flds Prop R	†	130	-1	065c	1.5	Feb Sep	29.6	-
SA Brews		£18⅞	0.0	0200c	ϕ	Jul Feb	2.12	4113
Standard Bank		£29⅞	3.7	0264c	3.1	Sep Mar	-	-
Tiger Oats		1655	20.4	0132c	2.8	Jan Jul	19.8	-
Tongaat-Hulett		764½	0.9	0142c	ϕ	Jan Jun	6.12	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Assumed dividend. h Assumed dividend after scrip issue. i on interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution

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FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Utd Overseas Grp (Dist). **Deletions:** Regent Corp (B&C), Aquarius Expln (Extl), Japanese Wrts Fnd (InCo), Sun Resources (O&E), Scott Pickford (AIM).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

هكذا من الأصل

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

ACM Global Investment - Contd.

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Eagle Star Intl Life - Contd.

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	Yield Gross	City-Line
GSAM Money Mkt US$	$101 74		4.80	45116
00 Sterling	£101.80		1.31	45117
00 Swiss Franc	SFr100.33		0.65	45118
00 Deutschmark	DM158.78		1.09	45119
GAM Select				
Select Asean Class A	$97.44		-	58529
Select Asean Class B	$95.31		-	58530
Select European A	$123.60		-	58531
Select European B	$115.31		-	58532
Select Japan A	$118.90		-	58533
Select Japan B	$123.86		-	58523
Select Money Markets A	£101 57		-	-
Select Money Markets B	$103.15		-	48983
Select North America A	$110.82		-	49227
Select North America B	$127 47		-	58537

Jardine Fleming Unit Trusts Ltd - Contd.

	Selling Price	Buying Price	Yield Gross	City-Line
JF Japan OTC Tst	Y944	1000	-	41522
JF Japan Small Co	Y35327	37374	-	46325
JF Japan Tech Tst	Y31610	33451	-	45326
JF Korea Trust	$7.78	8.22	-	47770
JF Malaysia Tst	$32.47	34.36	-	50318
JF New Zealand Tst	$19 45	20.62	-	40545
JF Pacific Inc Tst	$14.81	15.68	-	45328
JF Pacific Smlr Cos Tst	$7.27	7.70	-	49884
JF Pacific Secs Tst	$63.36	67.04	-	45327
JF Pakistan Trust	$3.45	3.68	-	54190
JF Philippine Tst	$94.96	100.47	-	45332
JF Taiwan Trust	$18.16	19.22	-	49051
JF Thailand Tst	$33.79	35.17	-	40588
JF India	$24.56	26.01	-	40785
JF Indonesia Trust	$11.26	11.92	-	55469
International Funds				
JF American Growth Tst	$31 49	33.32	-	45335
JF Continental Euro Tst	$4.69	4.96	-	45337
JF European Tst	$20.58	21.78	-	45336
JF Germany Tst	DM14.99	15.87	-	40876
JF Global Bond & Currency Fd	$17.28	18.29	7.2	45338
JF Global Convertibles Tst	$14 71	15.56	-	46788
JF Global Securities Tst	$26.09	27.61	-	45334
JF International Bond	$18.25	18.83	-	58580
JF Managed Currency Fd	$15.42	16.32	-	47031

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 9 / Sch)

BELGIUM/LUXEMBOURG (May 9 / Frs.)

CZECH REP (May 9 / Koruna)

DENMARK (May 9 / Kr)

FINLAND (May 9 / Mka)

FRANCE (May 9 / Frs.)

GERMANY (May 9 / Dm.)

GREECE (May 9 / Drachma)

ITALY (May 9 / Lire)

NETHERLANDS (May 9 / Fls.)

NORWAY (May 9 / Kroner)

POLAND (May 9 / Zloty)

PORTUGAL (May 9 / Escudo)

SPAIN (May 9 / Pts.)

SWEDEN (May 9 / Kronor)

SWITZERLAND (May 9 / Frs.)

TURKEY (May 9 / Tk Lira)

PACIFIC

JAPAN (May 9 / Yen)

AUSTRALIA (May 9 / Aus$)

HONG KONG (May 9 / H.K.$)

INDONESIA (May 9 / Rupiah)

MALAYSIA (May 9 / MYR)

NEW ZEALAND (May 9 / NZ $)

SINGAPORE (May 9 / S$)

SOUTH KOREA (May 9 / Won)

TAIWAN (May 9 / TW $)

THAILAND (May 9 / Baht)

AFRICA

SOUTH AFRICA (May 9 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 9 / Can $)

4 pm close

MONTREAL (May 9 / Can $)

4 pm close

Prices supplied by Extel, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	May 9	May 8	May 7	1997 High		1997 Low	
Argentina							
General(29/12/77)	21290.11	21236.69	21080.78	21551.32	24/2	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2526.0	2504.74	2517.9	2526.80	9/5	2352.20	1/4
All Mining(1/1/80)	909.7	897.4	896.7	987.30	24/2	878.40	18/4
Austria							
Credit Aktien(30/12/84)	415.91	(c)	412.26	418.23	11/3	374.40	9/1
Traded Index(2/1/91)	1241.04	(c)	1227.21	1256.43	11/3	1130.22	9/1
Belgium							
BEL20(1/1/91)	2225.98	(c)	2234.75	2254.87	5/5	1871.05	2/1
Brazil							
Bovespa(29/12/83)	10492.0	10437.0	10180.0	10492.00	9/5	0.00	29/4
Canada							
Metals Minls♦(1975)	5457.67	5423.03	5332.82	5891.75	10/3	4045.96	11/4
Composite♦(1975)	6228.50	6157.40	6121.52	6332.90	10/3	5570.30	14/4
Portfolio§§(4/1/83)	3156.57	3117.04	3105.95	3214.30	10/3	2846.02	11/4
Chile							
IGPA Gen(31/12/80)	5366.31	5369.79	5353.04	5443.52	25/2	4812.42	2/1
Denmark							
CopenhagenSE(3/1/83)	557.07	(c)	556.49	557.07	9/5	470.14	2/1
Finland							
HEX General(28/12/90)	3006.65	(c)	3002.04	3031.04	8/5	2483.28	2/1
France							
SBF 250(31/12/90)	1785.29	(c)	1770.47	1815.36	10/3	1533.19	2/1
CAC 40(31/12/87)	2633.91	(c)	2643.31	2709.21	10/3	2256.97	2/1
Germany							
FAZ Aktien(31/12/58)	1218.76	(c)	1212.12	1217.57	6/5	986.21	2/1
Commerzbank(1/12/53)	3572.20	(c)	3555.20	3572.28	9/5	2875.90	2/1
DAX(30/12/87)	3562.41	(c)	3551.98	3569.28	6/5	2848.77	2/1
Greece							
Athens SE(31/12/80)	1559.59	1544.47	1537.53	1669.59	9/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	13930.60	13740.30	13605.91	13930.80	9/5	12055.17	3/4
India							
BSE Sens.(1979)	3783.34	(c)	3753.90	3944.61	4/3	3226.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	673.88	(c)	666.84	712.60	26/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3193.18	3170.00	3186.41	3196.06	6/5	2725.07	2/1
Italy							
Banca Comm Ital(1972)	770.65	765.39	772.24	797.71	10/2	642.55	2/1
MIB General(2/1/97)	1160.0	1152.0	1162.0	1197.00	10/2	991.80	2/1
Japan							
Nikkei 225(16/5/49)	19902.78	20061.81	20048.90	20180.92	6/5	17303.65	10/1
Nikkei 300(1/10/82)	287.22	290.83	291.94	293.84	6/5	251.04	27/1
Japan							
Topix(4/1/68)	1478.04	1494.91	1500.52	1509.13	6/5	1330.82	10/4
2nd Section(4/1/68)	1715.43	1713.82	1713.66	1829.21	6/1	1516.50	15/4
Malaysia							
KLSE Comp.(4/4/86)	1107.37	(c)	1107.14	1271.57	25/2	1059.51	29/4
Mexico							
IPC(Nov 1978)	(u)	3821.02	3774.02	3938.69	25/2	3358.48	2/1
Netherland							
CBS TRtnGen(End 83)	910.4	(c)	905.0	910.40	9/5	730.80	2/1
CBS All Shr(End 83)	529.4	(c)	527.0	529.40	9/5	429.00	2/1
New Zealand							
Cap. 40(1/7/86)	2312.26	2321.11	2328.37	2440.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	1874.15	(c)	1858.47	1941.49	20/2	1639.03	2/1
Philippines							
Manila Comp(2/1/85)	2671.39	2682.10†	2694.40	3447.60	3/2	2605.65	2/5
Portugal							
BVL 30(4/1/93)	2885.71	2874.84	2878.49	2888.11	5/5	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	504.37	499.14	502.38	573.03	17/2	478.94	29/4
South Africa							
JSE Gold(28/9/78)	1237.6	1214.4	1189.3	1598.10	27/2	1101.80	2/5
JSE Ind.(28/9/78)	8501.2	8467.4	8503.6	8598.70	8/5	7859.50	2/1
South Korea							
KoreaCmpEx(4/1/80)	687.62	684.68	689.10	721.00	14/2	611.05	7/1
Spain							
Madrid SE(30/12/85)	531.58	525.85	524.12	531.66	9/5	434.54	2/1
Sweden							
AffarsvarldenGen(1/2/37)	2790.2	(c)	2783.0	2832.40	10/3	2378.59	2/1
Switzerland							
Swiss Bk Ind(31/12/58)	2371.89	(c)	(u)	2382.93	5/5	1817.95	13/1
SBC General(1/4/87)	1657.86	(c)	(u)	1662.52	5/5	1318.14	6/1
Taiwan							
WeightedPr.(30/6/66)	8233.37	8348.85	8427.07	8681.72	28/4	6844.76	6/1
Thailand							
Bangkok SET(30/4/75)	605.43	614.06	626.57	858.97	22/1	595.49	9/5
Turkey							
IMKB Nat 100(1986)	1443.00	1469.00	1478.00	1654.00	21/3	995.00	2/1
WORLD							
MS Capital Intl(1/1/70)	878.3*	872.9	869.3	878.30	9/5	794.80	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2287.77	2286.39	2288.10	2289.32	6/5	1983.80	2/1
Euro Top-100(26/6/90)	1952.89	1951.03	1953.27	1953.27	7/5	1582.99	2/1
HSBC JC Drgn(31/12/88)	(u)	403.07	401.55	429.48	20/1	381.54	29/4
ING Bargs Emrg(7/1/92)	175.53	174.60	175.49	181.33	26/2	159.74	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
May	2612.0	2615.0	-15.0	2640.0	2612.0	9,194	25,498
Jun	2587.0	2590.5	-15.5	2612.5	2587.0	1,197	23,654
■ DAX							
Jun	3544.5	3538.5	+1.5	3578.0	3527.0	17,448	–
■ OMX							
May	2178.00	2173.00	-2.00	2188.00	2167.00	3,086	24,984
Jun	2188.50	2181.50	+12.75	2191.00	2181.50	576	1,998
■ SOFFEX							
May	5028.0	5000.0	-17.0	5042.0	4996.0	3,768	25,633

US INDICES

Dow Jones	May 9	May 8	May 7	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7169.54	7136.62	7085.65	7225.32 (6/5)	6391.69 (11/4)	7225.32 (6/5/97)	41.22 (8/7/32)
Home Bonds	102.22	101.99	101.88	103.63 (18/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2601.20	2617.23	2594.42	2624.01 (5/5)	2222.07 (2/1)	2624.01 (5/5/97)	13.23 (8/7/32)
Utilities	223.65	223.94	223.94	240.86 (22/1)	208.47 (25/4)	256.46 (31/8/93)	19.53 (8/7/32)

DJ Ind. Day's high 7235.78 (7256.96) Low 7079.63 (7040.30) (Theoretical♦)
Day's high 7196.02 (7215.29) Low 7079.63 (7058.75) (Actual♦)

Standard and Poors	May 9	May 8	May 7	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	824.78	820.26†	815.62	830.24 (5/5)	737.01 (2/1)	830.24 (5/5/97)	4.40 (1/6/32)
Industrials¥	969.94	965.13	959.83	978.58 (5/5)	865.42 (11/4)	978.58 (5/5/97)	3.52 (30/6/32)
Financial	93.31	92.35	91.74	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	429.23	426.90	424.95	431.43 (5/5)	389.47 (11/4)	431.43 (5/5/97)	4.64 (25/4/42)
Amex Comp.	573.78	570.95	570.50	603.63 (10/3)	541.20 (28/4)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1335.01	1330.83†	1322.91	1388.06 (22/1)	1201.00 (2/4)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	May 2	Apr 25	Apr 18	Year ago
Dow Jones Ind. Div. Yield	1.73	1.82	1.82	2.21
	May 7	Apr 30	Apr 23	Year ago
S & P Ind. Div. yield	1.72	1.75	1.80	1.92
S & P Ind. P/E ratio	23.33	22.89	22.19	21.26

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Chrysler	5,694,000	31¼	+¾
Philip Morris	5,042,500	42	+⅛
Ford Motor	4,617,200	36⅝	+⅜
Exxon	4,143,500	58	+⅛
Compaq	4,039,800	95¼	+1⅝
Portgl Tel	4,033,000	40⅝	+1¼
Indosat	4,018,400	29⅝	—
Gen Motors	3,585,900	58	+1
Coca Cola	3,415,300	65¼	+⅝
Gen Elec	3,388,200	116⅝	+¾

■ TRADING ACTIVITY

● Volume (million)	May 9	May 8	May 7
New York SE	455.819	534.105	497.577
Amex	17.285	20.156	18.275
NASDAQ	(u)	632.633	622.575
NYSE			
Issues Traded	3,332	3,331	3,348
Rises	1,532	1,408	847
Falls	937	1,103	1,666
Unchanged	863	819	835
New Highs	109	109	96
New Lows	10	16	18

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Jun	822.05	829.65	+7.10	832.50	818.50	93,234	185,189
Sep	838.10	838.15	+7.05	841.00	828.00	2,687	8,225
■ Nikkei 225							
Jun	20150.0	19830.0	-230.0	20210.0	19780.0	30,410	230,905
Sep	20140.0	19910.0	-140.0	20160.0	19910.0	1,889	7,324

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Friday, May 9, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	14.7m	379	-6	Hitachi	4.8m	1240	-40
[illegible]	7.4m	430	+5	NEC Corp	4.6m	1610	-20

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 9

- A -

1997 High	1997 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32	24¼	AAR x	0.40	1.5	24	768	31¼	30⅞	31⅛	+⅛
43	33⅛	AMP x	1.04	2.7	21	3750	38¼	37¾	38½	-⅛
95¼	76¼	AMR			7	4132	24	61½	92⅝	-½
37⅝	61⅝	ASA	1.20	3.6	22	724	33½	28	33½	+⅜
63¾	49⅛	Abbtt L x	1.00	1.7	25	6900	62⅞	61¾	62¾	+¼
17½	14⅛	Abitibi Pr	0.40	2.3	0	440	17¼	17	17¼	+⅛
19¾	17¾	ABM Ind	0.40	2.1	17	143	18⅞	18¼	18¾	-⅛
23	17¾	Acptncsln			10	91	18⅝	19⅛	19⅝	+⅛
66⅞	56⅛	ACE Ltd	0.72	1.2	10	1816	52⅛	60¼	62⅛	+1¼
16¾	10	ACM Gvt In x	0.90	6.6	11	242	10⅜	10¼	10¼	
7⅝	7	ACM GvOpp x	0.63	8.4		16	7½	7½	7⅛	
9⅞	9¼	ACM Man x	0.00	9.6		101	9⅛	8⅝	9⅜	-⅛
18⅞	8¼	Acme Elect				28	7	8¼	8¾	-⅛
28	13¼	Acme Mills				220	14¼	13⅞	13⅞	-¼
17¾	14	ACNielsen			29	1334	16⅝	16⅛	16½	+⅛
33	27¼	Acordia	0.80	2.5	15	80	31⅞	31⅛	31⅞	+⅝
29⅛	21⅛	Acuson				777	25	23¾	23¾	-1
21⅜	10⅞	Adams Expr	0.55	2.6	1	180	21½	21⅜	21½	+¾
40⅛	24⅞	AdvMic				23438	45¾	44¼	45	+½
15	16⅝	Advest Grp	0.03	0.2	10	209	14⅛	13¾	13⅞	
14⅝	11⅜	Advo Inc			15	706	13¾	13	13⅛	-⅛
73⅝	61⅝	Aegon	1.45	2.0	20	80	u73⅞	73	73¾	+1¾
0¼	3⅛	Aeroflx				217	4	3¾	3⅞	
43⅛	33	Aero-V	0.06	1.9	12	750	41⅛	41⅝	41¾	+⅛
68	40	AES Corp				20	67	67	67	+½
99¼	73	Aetna x	0.50	0.8	55	6120	u106	28⅛	28½	+⅛

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PRESIDENT Hotel

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FT

4 pm close May 9

NYSE PRICES

Continued from previous page

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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4 pm close May 9

AMEX PRICES

[illegible]

4 pm close May 9

NASDAQ NATIONAL MARKET

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$7.125		1685	8.25	7	Esprit Telecom ADS	US$5.5	-0.25	15000	12.25	5.5
Artwork Systems	US$10.625	+0.25	73955	11	6.5	Innogenetics	US$11.5		4750	12.75	10.375
Chemunex	FFr16		30104	16	16	Mercer Internat.	US$9.625xd	+0.25	1570	11.75	6.125
Dr Solomon's ADS	US$22.5	-0.125	3250	26.5	16.875	PixTech	US$4.375		3265	6.125	4.25

Prices for 9/5/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)

FT GUIDE TO THE WEEK

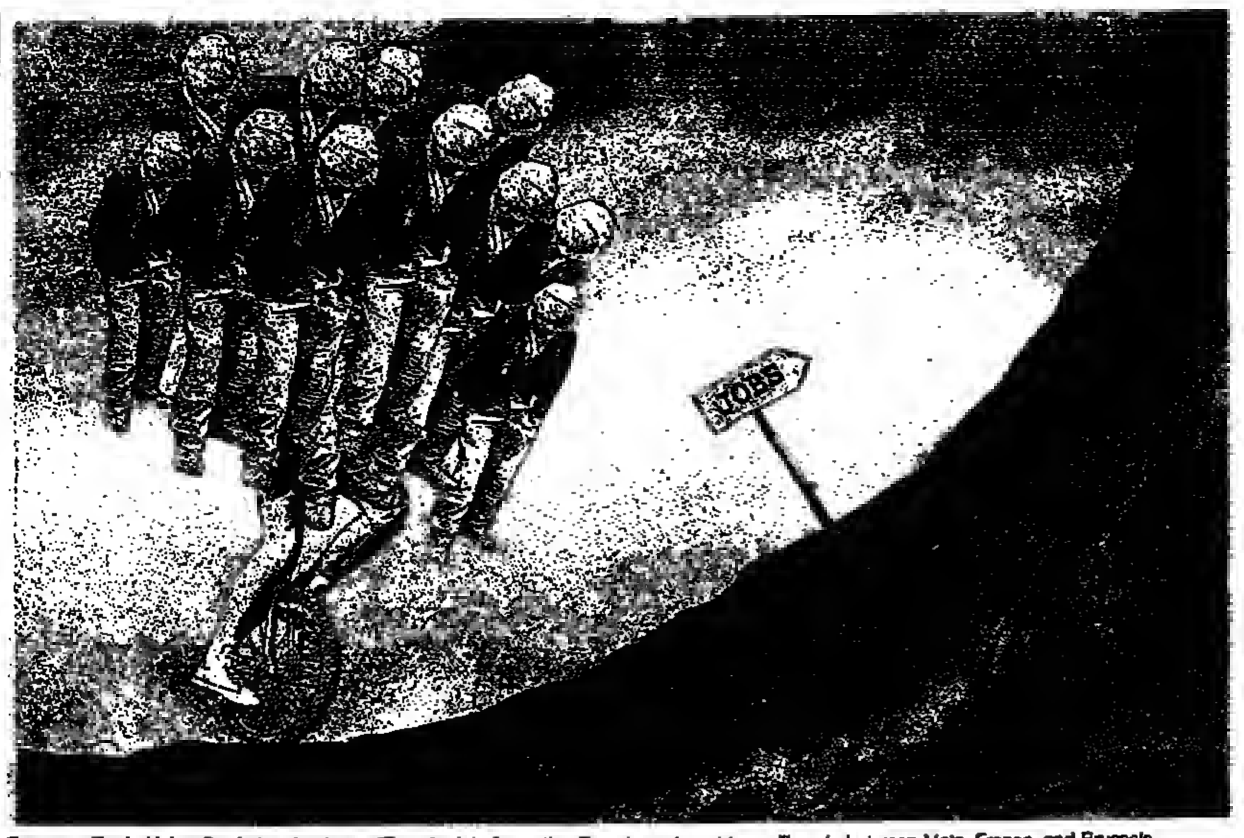
MONDAY 12

Qualifying for Emu

European Union finance ministers meeting in Brussels will for the first time welcome Gordon Brown, newly-appointed chancellor of the exchequer in Britain's Labour government. Ministers are expected to agree that Finland and the Netherlands can join the list of countries on track to qualify for monetary union - which includes Luxembourg, Ireland and Denmark. Finland and the Netherlands will be taken off the list of EU countries with "excessive deficits" - those over 3 per cent of GDP - after fiscal reforms last year.

BIS reports on war gold

The Bank for International Settlements, owned by the world's leading central banks, will give its official explanation of its war-time gold transactions with Nazi Germany. The BIS, which continued operating in Switzerland while the armies of its members fought each other, has largely escaped the criticism levelled at the Swiss National Bank for buying gold from the German Reichsbank. When the second world war started the BIS undertook to carry out only operations which were "above reproach from the point of view of belligerents and neutrals". The report should indicate whether the world's central bankers lived up to these high ideals.



European Trade Union Confederation hosts "Tour for jobs", starting Tuesday, when riders will cycle between Metz, France, and Brussels

India-Pakistan meeting

The prime ministers of India and Pakistan will meet in the margins of a South Asian regional conference for the first such high-level talks between the two hostile neighbours in several years, and amid hopes of a political rapprochement between the two. Neither expects any substantive measures to improve relations beyond a commitment to further talks, likely to be held next month in Islamabad. The discussions between Mr IK Gujral, the newly-installed Indian prime minister, and Mr Nawaz Sherif, the newly-elected Pakistani prime minister, will held in the context of the annual summit of the South Asian Association for Regional Co-operation which groups India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and the Maldives - the summit's host.

ADB strategy

The 30th annual meeting of the Asian Development Bank is being held in Fukuoka, western Japan. Representatives of the 56 member countries start their meeting on Sunday to discuss new strategies for the bank to fund sustainable growth in the Asia-Pacific region. The informal agenda will be more controversial, involving issues such as North Korea's recently declared interest in gaining ADB membership. Japan, which has growing security concerns about North Korean nuclear weapons development, has indicated it would oppose Pyongyang's early entry to the ADB.

Vietnamese visit

Vietnamese foreign minister Mr Nguyen Manh Cam is to hold talks in Tokyo with his Japanese counterpart, Mr Yukihiko Ikeda. Cam will be the first Vietnamese foreign minister to pay an official visit to Japan since October 1990 when foreign minister Nguyen Co Thach visited Tokyo. He will discuss bilateral issues including investment in Vietnam by Japanese companies and the government's aid programme. He will also speak at a symposium on the future of Asia.

Saleroom: New York

In New York tonight Christie's is offering one of the finest collections of 19th and 20th century art to appear on the market in recent years. The collection of the Wall Street financier John Loeb, who died last year, should make at least $80m, with a Cézanne portrait of his wife expected to top $25m and a Manet self-portrait $20m. The Loeb sale is the highlight of the big May week of Impressionist and modern art auctions at Christie's and Sotheby's. On Tuesday Sotheby's offers a Modigliani portrait for up to $10m and a Klimt landscape for around $7m, while at Christie's general auction on Wednesday a Picasso nude carries a top estimate of $7m and a Brancusi bronze might make up to $6m. The series of sales should bring in $300m.

FT Survey

Fukuoka

Public holidays

Israel, Western Samoa

TUESDAY 13

Nato-Russia meeting

Mr Javier Solana, the Nato secretary general, and Mr Yevgeni Primakov, the Russian foreign minister, are scheduled to meet in Moscow to negotiate a deal between Moscow and the western military alliance ahead of Nato's planned eastward expansion. Nato plans to invite some eastern European states to join at its Madrid summit in July; the Nato-Russia pact is intended to assuage Moscow's concerns about the alliance's eastward enlargement.

Australian budget

Australia's Liberal-National coalition government delivers its second budget since returning to power in 1996 after 13 years in the political wilderness. Its first budget emphasised cost-cutting and fiscal restraint, and was greeted by angry protests. This time the theme is likely to be repeated, but in a much more modest fashion. Analysts expect an additional A$2bn of savings to be announced, and are looking for forecasts of a big "headline" surplus in 1997/8.

Murdoch on the media

Media tycoon Mr Rupert Murdoch is due to speak in Tokyo at the 31st world congress of the International Federation of the Periodical Press on "Mass Communication in the 21st Century". Mr Murdoch's visit will generate much interest in Japan, not least because of a scheduled press conference later the same day, at which he is expected to announce the expansion of JSkyB, the Japanese arm of his satellite broadcasting business.

FT Surveys

Macao, Egypt

WEDNESDAY 14

Labour's reforms

The centre-piece of the Queen's speech, which outlines 18 months of legislation comprising 22 separate bills, will be legislation to increase UK ministers' control over under-performing schools. Legislation to set up a national regional network of development agencies, similar to those in Scotland and Wales, will also be introduced. A competition bill aimed at limiting cartels and price-fixing agreements is likely to be included. Mr Tony Blair, prime minister, has indicated he wants two bills passed before the summer recess - one ending the assisted places scheme for private schools and another enabling referendums on Scottish and Welsh devolution.

Presidential plans

Luxembourg, which holds the EU's rotating presidency in the second half of 1997, will present its plans at the European parliament in Strasbourg. Parliameot will also debate progress on the Intergovernmental Conference on the future shape of the EU - due to lead to the signing of a new Union treaty at next month's Amsterdam summit of European leaders.

Soccer

Barcelona play Paris St Germain in the European Cup Winners' Cup final, Rotterdam.

FT Survey

Czech Industry and Investment

Public holiday

Korea

THURSDAY 15

Chirac in China

French President Jacques Chirac starts a four-day state visit to China. Mr Chirac is to hold talks with his Chinese counterpart, Mr Jiang Zemin, and other senior Chinese leaders on international issues and ways of strengthening bilateral ties. The two countries are expected to issue a joint statement declaring a common stand on certain international issues and their desire to further expand Sino-French co-operation. They are also expected to sign agreements covering co-operation in the aerospace industry, nuclear energy and trade. In April this year, France refused to support United Nations resolutions criticising China's record on human rights but it is expected to raise the issue privately.

Americas in trade talks

Trade ministers from all over the Americas meet (to May 16) in Belo Horizonte, Brazil, to prepare the way for the planned Summit of the Americas next March in Chile. On the agenda is the creation of the Free Trade Area of the Americas, which heads of state across the region have pledged to agree by 2005. Progress will be tough: the two biggest economies, Brazil and the US, have divergent views on how to progress. The US is pushing for quick negotiations on tariffs; Brazil wants to delay that discussion into the new century.

Disarmament obstacles

The United Nations Conference on Disarmament resumes its 1997 session in Geneva with no sign of a breakthrough on its future agenda. The 61-member conference has a mandate from the UN general assembly to negotiate a ban on production of fissile materials for nuclear bombs - but the start of the talks is being blocked by developing countries which want parallel negotiations to eliminate all nuclear weapons. This demand has been rejected by the nuclear powers. For the same reason, developing countries are blocking the launch of negotiations in the UN body to ban anti-personnel landmines.

German Emu debate

The debate over Germany's fitness for European economic and monetary union will be given new impetus with the publication of fresh official estimates of German tax revenues this year and next. The Bundestag, the lower house of parliament, will also hold a rare debate on Emu, at the insistence of the opposition Social Democratic party.

Polish bank decision

The Polish treasury is expected to make final decisions on the sale of the Warsaw-based Powszechny Bank Kredytowy (PBK), one of Poland's largest commercial banks. The government will be choosing between Samsung, the Korean industrial conglomerate, and a group of local banks and insurance companies which want to form an institution strong enough to compete with foreign banks.

FT Survey

Business of Travel

Public holiday

Paraguay

FRIDAY 16

Security relations

Mr Igor Rodionov, Russia's defence minister, is due to arrive in Tokyo for a three-day visit during which he will meet Mr Fumio Kyuma, director general of Japan's defence agency. They will discuss regional security issues and ways to strengthen bilateral security relations. Japan is trying to expand its regional security role and build better relations with Russia.

WEEKEND 17-18

Emergency calls

The *Place des Nations* in Geneva, Switzerland, home of the International Telecommunication Union, will take on the aspect of a refugee camp for World Telecommunication Day on Saturday. Held annually to celebrate the ITU's foundation, the theme this year is "telecommunications and humanitarian assistance". A Norwegian-made tent identical to those shipped to disaster areas will house demonstrations of the importance of telecoms to relief operations. Organisations helping the ITU to mount the display include the Red Cross and Red Crescent and the World Health Organisation.

Public holidays

Cuba, Nauru, Norway (Saturday)

Compiled by Bob Vincent. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: During the week, German wholesale and consumer prices for April are scheduled to be released, along with retail sales data for March, which may be distorted by the early Easter removing two shopping days from the month.

Tuesday: The Bank of England's quarterly Inflation Report will be more keenly awaited than usual this week, in light of the Bank's operational independence granted last week. Wednesday sees UK average earnings figures for March, which are likely to continue the upward trend in underlying earnings.

Wednesday: As the next FOMC meeting on May 20 approaches, the market can test the water by looking at US producer price inflation, followed by the consumer price index on Thursday.

Thursday: UK retail price inflation in April is forecast to fall slightly. The headline rate may be down 0.1 to 2.5 per cent, with underlying inflation down by the same amount to 2.6 per cent.

Friday: France's first-quarter employment report may show a continued rise in those in work.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Apr producer price index input*	-0.4%	-0.5%		US	Mar business inventories	0.3%	0.3%
May 12	UK	Apr producer price index input**	-8.2%	-7.6%	Thur	Italy	Mar industrial production†*	-0.3%	2.3%
	UK	Apr producer price index output*	0.2%	-0.1%	May 15	Italy	Mar industrial production not†**	-2.5%	-3.8%
	UK	Apr producer price index output**	0.8%	1%		UK	Apr retail price index*	0.9%	0.3%
	UK	Apr PPI ex-food, drink, tobacco**	0.5%	0.5%		UK	Apr retail price index**	2.5%	2.6%
	UK	Apr British Retail Consortium survey		3.7%		UK	Apr retail price index X**	2.6%	2.7%
Tue						US	Apr consumer price index	0.2%	0.1%
May 13	Japan	Mar machinery orders ex-elec, ships**	10.7%	9.9%		Japan	Apr money supply (M2 & CD)**	2.7%	2.7%
	Japan	Mar machinery orders ex-elec, ships*	-10%	-1.6%		US	initial claims 10 May	336k	347k
	Italy	Mar producer price index**	0.8%	0.9%		US	state benefits 3 May		2,315k
	Italy	March wholesale price index**	0.6%	0.5%		US	Apr industrial production	0.2%	0.9%
	France	Apr consumer price index prov*	0.1%	0.1%		US	Apr capacity utilisation	84%	84.1%
	France	Apr consumer price index prov**	1%	1.1%		US	May Philadelphia Fed index	7.4	5.7
	US	Apr retail sales	-0.3%	0.2%		US	Apr real earnings		0.1%
	US	Apr retail sales ex-auto	0.2%	0.5%		US	M2 wk ended 5 May	-$2.3bn	-$10.4bn
	US	BOT-Mitsubishi 10 May		0.9%	Fri	US	Apr housing starts	1.42m	1.43m
	US	Redbook 10 May		0.2%	May 16	US	Apr building permits		1.45m (r)
	Japan	Mar current account (IMF) not†	Y1,040bn	Y1,200bn	During the week...				
	Japan	Mar trade balance (IMF) not†		Y1,300bn		Germany	Apr wholesale price index*	0.1%	0.9%
Wed	France	Feb current account†	FFr9.5bn	FFr21bn		Germany	Apr final cost of living west**		1.6%
May 14	UK	Apr unemployment	-35k	-41k		Germany	Apr cost of living pan-Germany**	1.4%	1.5%
	UK	Mar average earnings	5%	5%		Germany	Mar retail sales, real, not†**	-2.1%	-6%
	UK	Mar unit wages 3 mnth**	2.6%	2.6%		Germany	Mar retail sales, real†*	1%	0.2%
	US	Apr producer price index	unchanged	-0.1%		Germany	Apr Tokyo department store sales**		21.7%
	US	Apr PPI ex-food, energy	0.1%	0.4%					

*month on month. **year on year. †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

No.9,372 Set by GRIFFIN

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday May 22, marked Monday Crossword 9,372 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday May 26. Please allow 28 days for delivery of prizes.

Name.................................

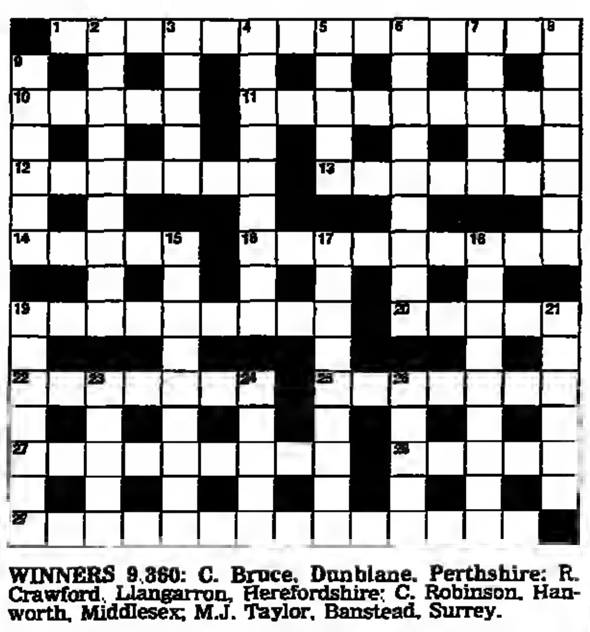
Address.................................

ACROSS

1 Change trains without one forming (14)
10 Bound to beat some soldiers back (5)
11 Thus a word runs in one direction (9)
12 Oriental feature to see et sea (7)
13 Dull way to save (7)
14 Wrong a spinster (5)
16 For the first time accepted my set puzzles (9)
19 Vessel working in certain fashion (9)
20 Promise rise to a bit of e skinflint (5)
22 Round figures? (7)
25 Goes over what prospective MPs want (7)
27 Being in Devon river is No. 100 (9)
28 Competitors turn back if led astray (5)
29 Made to go I mind, being sloppy (14)

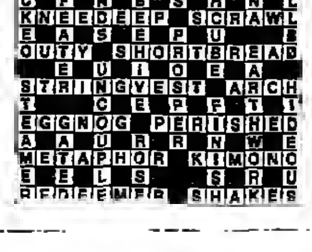
DOWN

2 Lie in trap curled up like a snake (9)
3 Simply standing around ringleader shows courage (5)
4 One catching girl in wood with fellow (9)
5 Lecherous men making love in the ways of the French (5)
6 Una met a poor man in a sacred building (9)
7 Replica I'm taking time to build (5)
8 They insist nothing goes on in their camps (7)
9 Articles about cacti omitting the first shrub (6)
16 It's good in ples, that cooked pasta! (9)
17 Fixed up in stern it's the most rigid (9)
19 Compelling half-sister in marquee to go outside (9)
19 Own copyright on iron vessel (7)
21 Strange desire to live (6)
23 Said you returned home, against marriage? (5)
24 Meaning to get a couple of poles look round (5)
26 It's edible and some scoff all of it (5)



WINNERS 9,360: C. Bruce, Dunblane, Perthshire; R. Crawford, Llangarron, Herefordshire; C. Robinson, Hanworth, Middlesex; M.J. Taylor, Banstead, Surrey.

Solution 9,360



BUSINESS EDUCATION

Simulation is edifying and fun, says Victoria Griffith

Boss for the day

It was just a computer simulation programme, I reminded myaelf, but I was still excited as I took up my position as the chief executive officer of RGP Financial Services.

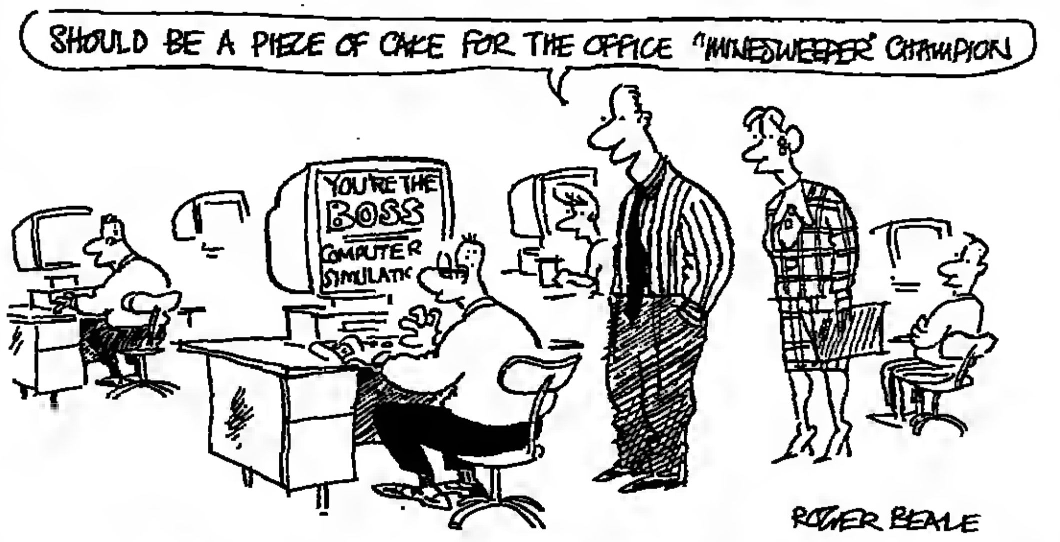
The imaginary company, created by CD producer High Performanee Systems, was a service group whose customer satisfaction rates were beginning to plummet. As I grabbed the rains of powar, I remembered a hint from the program's maker: think of long-term, not short-term, profits.

Within 45 minutes I had run the company ont of business.

After ordering ma to clear my desk, the computer explained that I was right to invest in employee training but that my pay packages had been too generous. I sheepishly contemplated the horrible fate that might have awaited me had I taken up a management career.

Executives and business students around the globe are grabbing at the chance to be "president for a day" through compnter simulation programs. MBA schools such as Harvard, MIT's Sloan School and Wharton are using simulations regularly and companies such as hotel chain Hyatt, the Venezuelan oil group Petroleos de Venezuela, and the US car company General Motors have made computer simulations an integral part of their training.

Off-tbe-shalf products are increasingly available from companies such as High Performance Systems in New Hampshire, and Microworld of Cambridge, Massachusetts, although prices are still high – usually between $100 (£62) and $400.



Technological advances are driving the simulation boom. "Until now, this stuff was limited to advanced computer programmers and mathematicians," says Barry Richmond, managing director of High Performance Systems. "Now someone with a very basic knowledge in programming can come up with one, and virtually anyone can use it. It's just point and click."

The technology is becoming so simple that people in the industry predict management simulations will soon be nestled in the business section of book stores and will sell for $50 or less. Maxis, the CD producer behind the enormously popular game SimCity, in which players run an imaginary town, says it is interested in the field.

"Once those guys get in, it will have mora mass-market appeal," says Jerry Porras, a business school professor at Stanford and author of simulation programmes.

The main appeal of computer simulations is that they are fun. "Everyone really got into it," says Lisa Sedelnik, who used computer simulation during a recent Wharton course. "You could bear people shouting 'Yeah!' or groaning when they were playing it."

Because most simulations are set io win-or-losa mode – make too many wrong moves and the company collapses – participants readily absorb the lessons and many players continue to play until they do win.

Simulations can be done without computers. The Beer Game, a board game developed by MIT professors more than a decade ago in which players run a rapidly growing beer company, is still widely used on MBA programmes.

Yet the multimedia programmes add a new dimansion to simulations. In the RGP programme, for instance, players receive urgent e-mail from the board complaining about issues like cash sufficiency and hiring. Every now and then the image of a talking head appears on the screen – a disgruntled employee or customer, for instance – to give their side of the story. Charts and tables appear at the click of a mouse.

"People often go into the simulations feeling a little sceptical that it will really be worthwhile," says Valerie Suffa, a simulation researcher with the Center for Creative Leadership, a think-tank. "But after a while, some say they almost forget it's just a game."

One benefit of simulations may be to show employees how tough life can be at the top. David Kreutzer, chief executive of Microworld, was amused when cocky trainees at Petroleos de Venezuela were bumbled by a simulation programme. "There's a tendency for employees to think the guys at the top are dumb and are doing everything wrong," says Kreutzer. "It's probably a good idea to let them see that managing a company is not an easy proposition."

While computer simulations are extremely valuable, there is a danger that some players will take them at more than their worth. "The lessons you learn from them are only as good as the assumptions that go in," says Richmond. "They represent the author's point of view, just as a management book does. Yet some people may take it as absolute truth."

NEWS FROM CAMPUS

Blair picks Insead MBA

One of Insead's most famous sons has been given a peerage and appointed minister for trade and competitiveness in Europe in the UK's new Labnur government.

Insead MBA Sir David Simon has given up his job as chairman of Britisb Petroleum, where be is credited with the dramatic revival of the company, to take up the new role.
Insead: France 1 60 72 40 00

Slovenia joins the big boys

Proving that management education in Slovenia is alive and kicking, the International Executive Development Centre in Kranj has become one of the first 18 European business schools to sign up for accreditation under the Equis scheme developed by the European business schools' trade body, the European Foundation for Management Development. Also included are seven French schools, three Spanish ones and two from the UK – London and Ashridge.
EFMD: Belgium, 2 648 03 85

Asian wisdom for Carolina

This week, 19 students from the Kenan-Flagler business school at the university of North Carolina in Chapel Hill will visit Bangkok, Jakarta, Hong Kong and Guangzhou.

They are participating in a new 11-day course which is intended to develop the students into potential managers for the area.
Kenan-Flagler: US, (919) 962 7235

Dutch team on the winning case

A team from RSM Erasmus in Rotterdam flew to Atlantic City earlier this month to beat teams from Rutgers university, and the universities of Ohio State and Georgia in the annual Rutgers invitational case tournament. The teams had to analyse a case, prepare a report and give an oral presentation.
Erasmus: Netherlands, 10 408 2768

SPONSORSHIP

All in a good cause – and profitable

Victoria Griffith on the growing involvement of US companies in 'cause-related marketing'

Philanthropy is great for the image. No wonder US corporations responded enthusiastically to President Bill Clinton's call for more good works at his volunteer summit last month.

Some companies believe doing good can make such a difference, they are making non-profit causes an integral part of their marketing strategy. No longer content to hand over a cheque, these groups have tied their good deeds directly to the bottom line. The idea is donations to certain non profit-making organisations can measurably boost corporate sales.

Credit card companies are especially active in what has come to be known as "cause-related marketing". For the last four years, American Express has run a campaign for Share Our Strength (SOS), a hunger relief organisation.

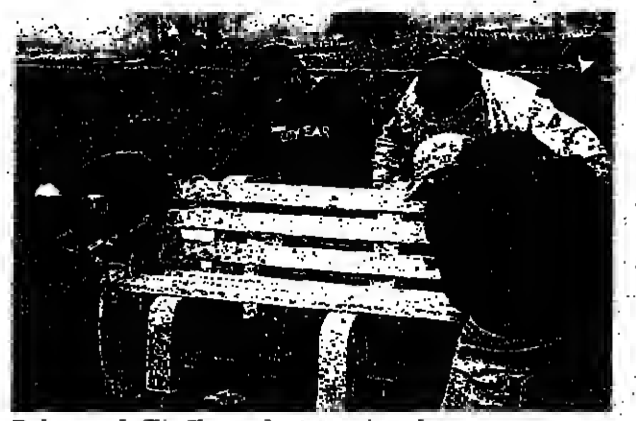
During a two-month period, every time a customer buys something with American Express, the company gives three cents to SOS. Last year, the programme raised $5m.

American Express benefits too. The company says use of its cards surges during the campaign, although it won't say by how much. "We do know that the Charge Against Hunger campaign has an influence on customers' choice of cards," says Lloyd Wirshba, general manager of the restaurant and entertainment division of American Express.

New England's Fleet Bank runs a similar programme to aid the Special Olympics for the disabled. Other companies link specific products to a special cause.

Household products group Johnson & Johnson last year launched Arthritis Foundation Pain Relievers. In return for the use of its name, tha foundation received a $1m donation from Johnson & Johnson, and gets a small share of the product'e profits.

Sportswear maker Timberland has sponsored a special fashion line to benefit the City Year organisation which aids inner city teenagers. The same clothing that Timberland donates to City Year volunteers was apparently a hit with consumers in the stores.



Doing good: City Year volunteers at work

The Chicago Bulls basketball team has just signed a deal with City Year that places the Bulls logo on Chicago volunteers' backpacks in return for $55,000 in donation money over the next two years.

Tie-ins are becoming ever more explicit. Last year, the American Cancer Society sold endorsements to the Florida Citrus Marketers Association for $1m, and to makers of the NicoDerm nicotine patch for $3m; both can now use the name of the society in their advertising.

"Eesentially, non-profit organisations are licensing their names to companies," says Kasturi Rangan, a professor of marketing at Harvard Business School. "It used to be more subtle, but it will increasingly become a routine way to do business.

"The non-profits will also start to realise the value of this to the corporations and demand larger sums of money."

Non-profit making organisations like the idea. "It'e good for them, but it's great for us," says Priscilla Tuan, a volunteer for City Year.

"The companies not only donate money; they also give us free advertising. If it's good for both sides, why knock it?"

To be effective, the partnerships should make sense. Johnson & Johnson paired with the Arthritis Foundation because it wants arthritis sufferers to use its pain reliever.

Timberland teamed np with City Year because its clothes are especially popular with inner-city kids. American Express says it selected an anti-hunger organisation because its card is widely used in restaurants.

While everyone eeems happy with these arrangements so far, there are clear risks to such close association. With the names tightly paired, scandals could have negative repercussions for the corporata or non-profit making partner.

To guard against such mishaps, corporations and non profit-making organisations agree it is important to vet partners carefully before striking a deal. And companies say it is better to identify with a general cause as well as a specific organisation.

"Our City Year deal is just a way for us to say we care about inner city teenagers," says David Kurland, who manages community service for the Bulls. "Our commitment to City Year is for just two years, but our commitment to the cause is for the long-term."

While these associations are clearly business transactions, marketing experts say they should also have an element of passion to make them convincing. American Express, for instance, not only gives money to SOS through its card campaign, but encourages its employees to do volunteer work. Timberland executives serve on the City Year board.

"The more sincere it is, the better it will come off in tha market," says Rangan. "It can be very lucrative for both sides, but it's also a very tricky business."

Stefano Hatfield · Ad in the News

More of the same

It's tough being a global airline's ad agency. Your client seeks the same positioning as all its rivals: "We fly more people to more places in greater luxury than anyone else."

Unfortunately for American, United and Delta, British Airways got there first with Saatchi and Saatchi's "world's favourite airline" campaign.

However, when in 1995 BA switched to Maurice Saatchi's new agency M & C, the other airlines had an opportunity to tap into years of first-hand competitive global experience. Delta awarded Saatchi's its $100m worldwide account in March.

Any vaguely ad-literate viewer will not be surprised by the result. "The world's favourite" has been reborn as Delta's "on top of the world". It's a glossy and ambitious 60-second commercial designed to run across national borders, and therefore has no dialogue.

In a series of scenarios an aircraft's interior is distorted to a vast scale. A laptop-pounding businesswoman is brought coffee in a designer office; another reposes on a grassy knoll; a businessman is served lunch by a legion of chefs; a second sits in a luxury cinema; a third enjoys the sounds of a huge orchestra. All of these symbolise services available on a Delta flight. Throw in the inevitable claim that Delta flies more people than anyona else, and a neoclassical piece of music, *Adiemus* by Karl Jenkins, and if it wasn't for the American voiceover we would be in a BA commercial. That, of course, is exactly the point.

Delta must now deliver its message consistently. BA has used the same strategy for over a decade. We think of it as "the world's favourite airline" whether it is or not. It helps that BA spends £10m a year on advertising in the UK. Compared to that, Delta's £2m appears paltry.

The author is editor of Campaign.

On top of the world: Delta's campaign follows a familiar style

MARKETING

Bringing up baby – on enfant cuisine

Baked fish with fennel and potato, followed by an organic medley of banana and apricot, washed down with purified water containing the merest hint of blackberry or lemon and lime.

Not the latest in director dining room fare, but the new generation of upmarket babyfood, dubbed "enfant cuisine".

Spurred on by the small, niche players who are challenging the notion that infant food must be bland, babyfood giants Heinz and Cow & Gate are planning major marketing campaigns this spring to introduce more adventurous recipes.

While chicken casserole and chocolate pudding will always have their place on baby menus, today's infant, says Belinda Mitchell, director of the Original Fresh Babyfood Company, deserves something more challenging.

Her company has launched the first range of chilled meals for babies, which at £1.29 for 175g of sweet potato and carrot with cinnamon or mushroom and sweet pepper risotto, does not come cheap.

But for parents who can afford the luxury of cook-chill meals for their babies – or who perhaps are too busy to start cooking from scratch – the range is a landmark for an industry that has always played safe.

Newcomer Mitchell has the expertise of celebrity restaurant chef Mark Hix, of Le Caprice in London, to help her develop more adventurous meals for the highchair diner – other Hix recipes include lentil casserole and courgette risotto with banana.

The mighty Heinz and Cow & Gate companies meanwhile are going to rely on decades of experience.

For Heinz, which has already launched and subsequently scrapped the first ever range of frozen babyfood, Babies Choice, the way forward is in pasta.

Among the company'e new recipes are pasta shells with chicken and mushrooms and pasta twists with tender pork; hardly leading-edge developments in infant cuisine, but a significant departure from the rice pudding and spaghetti bolognese that have been Heinz's top sellers for years.

Other innovations from the babyfood market leader include a range of purified

spring water for babies containing hints of lemon and other flavours.

Cow & Gate, which is also expanding its range of organic babyfoods, believes that the developments in babyfood simply reflect the changing eating habits of parents.

The company is unveiling its new Small World range of "cosmopolitan cuisine" for the well-travelled baby of seven months and upwards. Recipes including chicken chow mein, goulash and even spicy curries.

Virginia Matthews

MUSIC

Not yet quite in tune

The music industry's enthusiasm for the Internet has faded but record labels remain convinced of its value, says Alice Rawsthorn

One of the most popular websites in Britain opens with an image of five women perching *à la* Christine Keeler on Arne Jacobsen chairs.

They are the Spice Girls, currently the UK's best-selling pop group, and each month their website generates more than 1.5m hits. The site is run by Virgin Records, the Spice Girls' lahel which, like other record companies, has launched websites for most of its acts.

When the music industry started experimenting with the Internet two or three years ago, it did so in the expectation that albums and singles would, eventually, be bought and sold online.

There are still legal and technical issnes to be resolved before that happens, and in the meantime record companies are limited to using it as a promotional medium.

Music pages rule the web

Like companies in other sectors, tha enthusiasm with which record labels first approached the Internet has faded. Having realised that maintainIng websites absorbs much more time and money than they initially expected, many companies are more circumspect about it.

"I've now spent three years trying to get the Internet to work for us," says Marc Marot, managing director of Island Records, which has created sites for U2, The Orb and P. J. Harvey.

"Personally, I'm convinced that it edds value, but it's difficult to measure bow much," says Marot. "And it all adds up to a lot of time and a considerable amount of money."

In many respects, the Internet is an ideal medium for the music Industry, as the demographic profile of a typical "techie" – young, reasonably wall-educated, and probably mala – matches perfectly with that of frequent record buyers.

By the time record companies started developing their own sites, thousands of unofficial ones already existed, generally launched by fans and dedicated to particular acts or genres. The first "official" sites were fairly rudimentary, but they have become more sophisticated as technology has edvanced.

"Things have improved, although sound quality isn't perfect yet, and video looks very jerky on most home modems," says Neil Cartwright, web master of Sony Music, which runs sites for bands such as Kula Shaker and Jamiroqual.

In many respects, the Internet is an ideal medium as the demographic profile of a typical "techie" matches perfectly with that of frequent record buyers

Record companies still use their websites primarily to relay information about acts – ranging from details of forthcoming tours to showing clips from new videos – in the bope of raising their profile among prospective fans, and strengthening their reletionship with existing ones. But they have refined the wey they convey that information.

"Two years ago labels were putting up dull pages of text, and we realised very quickly that wasn't wbat people wanted," says Danny Van Emden, head of marketing at Virgin Records, which features more than 50 acts on its sites including Everything But The Girl and Future Sound of London, as well as tbe Splce Girls. "We've introduced much more interactivity."

Another change, eccording to Van Emden, is that record companies have become more aware of the varying capability of different computers.

Some eites, she says, were "so clever and tricky" that they were virtually inaccessible to many home PCs.

Virgin now offers different music samples to suit various systems, and provides basic versions of its "trickiest" sites to be accessed by less powerful computers.

As expected, many of the most popular sites have been those dealing with the music likeliest to appeal to computer buffs, notably the electronically-generated sounds of dance ects, such as Chemical Brothers and the Prodigy.

More surprisingly, children have emerged as avid users of music sites, logging oo at school internet Clubs, or on their parents' computers.

Labels have also found it belpful to set up sites for esoteric genres, sucb as world music, jazz and classical music, which often find It difficult to secure mainstream media coverage.

It is virtually impossible to quantify the impact of websites on record sales, but they do provide a means for record executives to monitor the public's response to releases and to individual labels.

"It's incredibly belpful," says Marot, who makes an effort to go through all the e-mails sent to the Island site. "Because it's the only way we can tell what people really think about the music we're releasing."

The principal problem facing most record companies is finding tbe resources to maintain their websites. There are now so many sites thet it is increasingly difficult to come up witb distinctive concepts, and considerably more expensive to ensure tbat tbey are all regularly updated.

Most record companies call in freelances to design their websites, but can only afford to have a couple of people dedicated to working on them.

They tend to rely on the rest of their staff to supply images and information to refresh the contents. Hence the quality of the new material, and the speed with which it is delivered, varies tremendously.

Marot suspects that the best solution is for artists to run their sites themselves, as Pulp, one Island act, already does.

"The problem is that other artists aren't that committed to the Internet," he says. "They think it's interesting and quirky, but it isn't real to them – not yet."

MEDIA

The new clinging to the old

Why has Salon, a bigb-brow online magazine, decided to syndicate its copy to tbe print newspapers and magazines which new media publishers formerly disdained?

The deal, through United Feature Syndicate, ie designed to augment the advertising revenues from Salon's Website. But it also attests to new media's dependence on the old.

The most successful online publications and services are those heavily promoted in newspapers and television. Salon appears to have learned tbis lesson; it bas insisted buyers of its content prominently display its web address.

Now Halsey Minor, chief executive of CNET, the leading online provider of tecbnology news, says: "I've seen the power of crossmarketing (between new and traditionel media) and I am a great believer."

CNET, which is based in San Francisco, began business es a maker of programmes such as CNET Central for US cable television. The publicity from tbese programmes gave it brand recognition when it launched its web site, which now offers tecbnology news, advice about computers and shareware software.

Other media companies are following CNET's example. Ziff-Davis, publisher of magazines such as PC Magazine and tbe online site ZDNet, said it would begin television programming.

'I've seen the power of crossmarketing and I am a great believer.'

Yahoo! – tbe eervice which assists in navigating the Internet – bas surged ahead of its competitors with an advertising campaign in traditional media.

It is all good news for establishad medie companies. Already ESPN, the leading sports channel on US cable television, has established ESPN Sportszone as the most trafficked sports site on tha internet. MSNBC, a joint venture between Microsoft and NBC, the software giant and the TV network, is attacking the online news business.

Newspapers are still handicapped by their reluctance to put up stories on the Internet before publication in print, a psychological barrier from which pure online media companies do not suffer. But television companies are well-placed.

Their material goes out live, so they do not run the risk of scooping themselves. Aa telecommunicetions capacity increases, and compression technology sucb as Progressive Networks' RealVideo improves, their content becomes easier to deliver over the Internet.

Maybe Salon sbould start a cable television show.

Nicholas Denton

TELEVISION

Tuned in to change

The BBC has this month quietly started to implement e controversial decision to invite outside consultants to run and completely redesign its accounting and financial systems – on a ten-year contract.

At issue is the way £2bn of annual licence fee payer's money is shuttled around under the corporation's imperfect internal market system of producer choice. The aim is to replace the notorious shuffling of paper with a near universal method of electronic transfers.

The ontside team, called Media Accounting Services (MEDAS), is a joint venture of management consultants from Coopers & Lybrand, and America'e information technology experts, EDS (originally a spin-off from General Motors), which installs and runs financial systems within companies worldwide. The deal is worth about £500m.

The BBC's board of governors has said it will review the initial phase of the deal et the end of this year before giving the green light to building a new common compnter and information technology system. Then e decision will be taken on transferring 700 BBC finance staff into tha new company. On March 1 an initial 90 computer support staff were transferred to MEDAS in the first phase.

The consultants are working on the design of a single, centralised compnter system: "state of the art" promises EDS. It will be expected to deal with the wey the BBC's six big divislons relentlessly trade with each other. It will also handle the thousands of individual payments to programme contributors.

One aim is to replace paperwork by dispensing electronic procurement cards to key programme production departments, rather like a credit card, so funds are electronically transferred, said Neils Anderson, bead of BBC finance operations.

Maggie Brown

INTERNET

Dr Dilemma takes the lead

London International, maker of Durex condoms, has transformed its online marketing strategy, introducing Dr Dilemma and Online Lovers in an attempt to project a youth image.

For over a year the company has been dispensing medical advice over the Internet from its – very serious – World Wide Web site.

Most edvertising-led sites take their themes from campaigns in the traditional media, television and magazines. The relaunched Durex site bas reversed this approach; the company is to lead its advertising in all media from the Web.

Using the Internet to drive other media allowe the brand managers to identify the most effective parts of the campaign – right down to the models and characters users prefer – without expensive research as tha compnters automatically monitor which pages users choose to click on.

Running advertising on the Net before transferring it to televisioo could prevent an expensive flop.

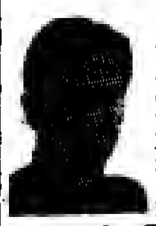
"The Web site is the focal point; other advertising will borrow from this," says Vincent Jeanniard, new media manager for LIG. He sees part of the draw of the Net in its "youth" image, something the company as a whole has been trying to project.

But whila "Tony Mascarpone'e love zone" and the Online Lover, a mixture of screen saver and e-mail from a fantasy lover, prove the site is aimed at a younger audience, it has retained its serious side. Dr Dilemma is a real doctor, and there is e wbole section devoted to sexual bealth. As Jeanniard says: "Tbere just isn't enougb physical epace to present all the information people want on the back of the packet."

James Mackintosh

Tim Jackson

Broking ensnared on Web



A couple of weeks ago, I received an odd letter. It wee from E-Trade Securities, en Internet brokerage based in Palo Alto, California. "We are writing to inform you that securities regulations in the UK prevent UK residents (regardless of citizenehip) from establishing brokarage accounts with E-Trade Securities," the letter explained.

It went on to ask for instructions on what to do with the shares and cash in my account, and warned that unless I replied by April 18, my holdings would be liquidated and my money returned.

As it was dated the first of the month, my original thought was the letter was an April fool.

When I checked with E-Trade, however, I was told that the company was in deadly earnest. "Unfortnnately, we are required by your government to close these acconnts," it explained.

By automating the process of buying and selling shares over the Internet, E-Trade has built a customer base of over 150,000 clients in the US – and has created a new class of service that undercuts even the deepest of America's "deep-discount" brokerages.

By denying Britons access to the service, the British financial regulators seemed to be trying to prevent local consumers from benefiting from the lower prices and better service. What could they be thinking of?

Consumer protection hardly looked like a good reason. Although frandsters have been taking enthusiastic edvantage of the Internet, E-Trade Securities is honest (I even own stock in the company).

It is reguleted by the US Securities and Exchange Commission, and its customers have the same protection as clients of Fidelity or Merrill Lynch.

At first sight, it looked as though the British, egged on by domestic firms trying to keep a low-cost international competitor out, had dacided to regulate E-Trade's British business ont of existence – even though tha company only offers broking services for sharas and darivatives quoted on American exchanges.

According to the Securities and Investments Board that is not what happened. An SIB epokesman explained that the Financial Services Act draws a distinction between advertising services such as stockbroking, and actually carrying them out.

To issue investment ads in Britain, or cause them to he issued, is a criminal offence unless the ads have been epproved by a person who is euthorised to carry out investment business in the UK. Carrying out business from abroad for Britisb customers, by contrast, is allowed if you have no local office and you receive unsolicited business or do not solicit illegally for business in the jurisdiction by contravening the advertising or unsolicited calls provisions of the act.

Whether publishing information in the US on the World Wide Web that can be read by British customers counts under the act as advertising or soliciting in Britain is a moot point. The spokesman said: "Our view is that if a person in the UK can pull the investment ad up on the screen, the ad is seen to have been issued to him in the UK."

But later he insisted: "We're not looking to try and enforce against the world the passive adverts on the Internet."

In this case, the SIB'e attention was drawn to E-Trade because the company put an ad in the Sunday Business newspapar. That, it seems, was E-Trade's big mistake.

The short-term moral for other electronic brokers in the US seems clear. Provided you are careful either to avoid directing advertising in Britain, or you have your British ads (including any Web materials aimed at British customers) approved by a company with local authorisation, you are free to issue the ads in the UK.

If you can arrange for your activities to fall within the apprpriate exclusions of the Financial Service Act, you can build a brokerage business in Britain withont having a local office.

In the long term, however, two conclusions seem clear. One is that financial eervices eeems certain to join the long list of activities whose regulation bas been thrown into confusion by the Internet.

The core issue is whether a company in country A is to be considered as providing a service or issuing information in country B if a client in country B has access to them over the Internet.

Anotber conclusion is that there is an urgent need for governmant regulators of service industries to recognise each others' rules.

This is easier said than done. International trade in services has proved one of the most difficult negotiating issues in international talks – not least because regulations are often a useful way of excluding foreigners from your market.

This issue is likely to become dramatically more important over the coming two or three years as the Internet allows more and more services to be delivered across frontiers. Unless it can be sorted out, many of the benefits will fail to materialise.

tim.jackson@pobox.com.

BUSINESS TRAVEL

Travel News • Roger Bray

Advance warning

Business travellers with tight schedules may need to book European flights a little further ahead because airlines have been flying fuller than ever. Latest figures from the Association of European Airlines show that, on average, its members filled 63.8 per cent of their short-haul seats in March. That still left more unsold capacity than on long-haul routes. Flights across the north Atlantic, for example, where traffic soared 11.7 per cent compared with that for the same month last year, were 81.1 per cent full. Nevertheless, the European figure was the highest March average on record.

Historic move

The Westin hotel chain has taken over management of the Trianon Palace hotel, 20 minutes outside Paris, where the Treaty of Versailles was thrashed out at the end of the first world war. In July, the company will start refurbishing the hotel's more modern annexe, which incorporates a conference centre. A short stroll from the Palace of Versailles, the hotel has 183 rooms, suites and apartments, a spa, and Les Trois Marches restaurant, which rates two stars in Michelin. A marble plaque records the world leaders' deliberations. It was restored after Hitler, who attended a staff meeting at the hotel in 1942, angrily ordered it to be torn down.

Russian route

Fast-growing Russian airline Transaero plans to launch scheduled flights between Moscow and Manchester on July 1. The twice-weekly operation will replace services scrapped by Aeroflot earlier this year. The airline, which will use 98-seat Boeing 737s on the route, claims to have carried more than 1.5m passengers last year on routes to 30 cities in Russia, the CIS, Europe and the US. Later this year it will start Moscow-Hong Kong flights. British Airways looks after its maintenance. Return fares on the new UK route will range from £295 (full economy) to £950 (business class).

Fast track

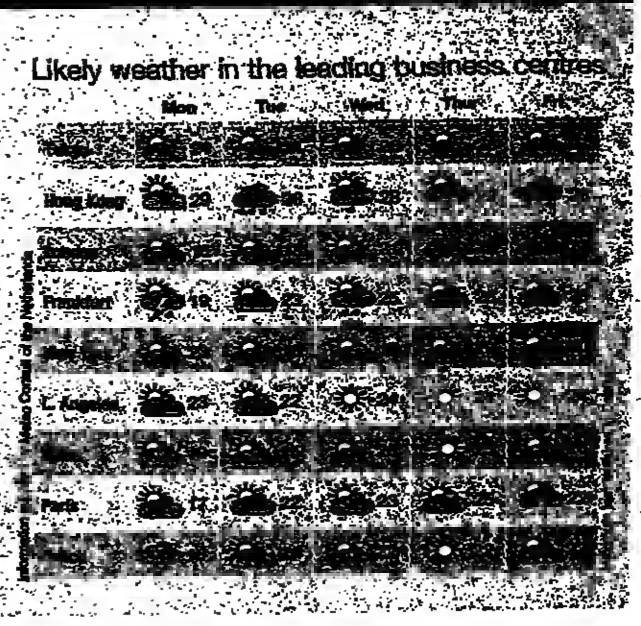
Japan's latest bullet train – the Asama Shinkansen – is scheduled to start running between Tokyo and Nagano on October 1. With a new aerodynamic shape to cut noise and vibration, it will run at speeds up to 260km per hour, roughly halving the present journey time of just under three hours. There will be 24 round trips every day between the capital and the central Honshu city, which will host next year's winter Olympics.

Overhead benefit

Passengers flying on the new Boeing 777 are finding it offers a significant advantage over earlier airliners – capacious overhead bins. Singapore Airlines was due to become the twinjet's latest operator this week, introducing it first to Jakarta, then to other destinations, including Delhi, Manila, Melbourne and Seoul. The airline has configured the aircraft with 288 seats – 12 in first, 42 in its Raffles class business cabin and 234 in economy.

Code connection

Airline code-sharing deals continue to multiply like rabbits. A deal was due to take effect today between Denmark's Maersk Air and Swissair to provide faster connections at Frankfurt for passengers travelling between the former's base at Billund and Zurich.



Slow going in London

Roger Bray offers tips for staying calm in the congested city

Premium-class passengers on Virgin Atlantic's flights and on trains through the Channel tunnel can now speed to and from London's Heathrow airport or Waterloo rail station by motorcycle taxi. The service sprang from the fertile marketing brain of entrepreneur Richard Branson, whose empire embraces not only the airline but a stake in the Eurostar operation.

It was an inspired idea. Business travellers to the UK capital who are pressed for time are caught between a rock and a hard place. London's public transport infrastructure is creaking. Traffic moves more slowly than in the days of horse-drawn carriages. It has been estimated that drivers using their cars regularly for business in the capital lose an average of 18 days a year in jams.

And although it gets higher satisfaction marks from visitors than residents, the Underground, a fast alternative when it works smoothly, desperately needs investment and is becoming increasingly unreliable.

The Piccadilly line, which runs through central London to and from Heathrow, is a classic example. In recent months, I have been sent on the wrong branch line by a faulty indicator at Earls Court station, a major interchange, and subjected to a slow, faltering ride into town by a signal failure. You can also face long queues at ticket windows. Taking all this into account, while the journey should take between 45 minutes and an hour, it is best to build in an extra 30 minutes or so as a buffer.

Nor does service run through the night – the last trains into town leave Terminal 4 at 11.39pm and the other terminals 10 minutes later. And during the rush hour it can be a hassle struggling on and off trains with luggage.

Rail links with Gatwick, London's second airport, which do now run all night, and Stansted, the third airport, generally function well. But both road and rail transport has been disrupted by IRA bomb threats.

At least one improvement is on the way. In September, part of the line to be used by the Heathrow Express, a new rail link with the capital's western rail terminus at Paddington, is due to open. Trains will connect with coaches at a temporary station, providing a 35-minute journey to Terminals 1, 2 and 3. The full express service, due to open next summer, will get you there in 16 minutes.

The visitor without the supporting clout of a leading corporation will find the only real central point of business information is London First Centre, the capital's inward investment agency, which will help you through the planning maze, for example.


Jam today: it can be congested

But although the new Labour government has promised to create one, London does not have a unified local authority. And the London Chamber of Commerce says it has no service for non-members, although it is collaborating with an outside publisher on a guide to doing business in the capital.

Hotel rooms can be hard to find. A recent survey reported that, on average, hotels were 80 per cent full – not very far from saturation point. Prices actually paid – rather than those published – had risen more than 22 per cent in two years.

Some hoteliers were hoping for further rises of about 12 per cent this year. But in the face of slightly weaker demand, however, they may have to make do with between 7 per cent and 8 per cent. The rise of the smart "designer hotel" has been boosted by the recent opening of the Metropolitan on Park Lane, but high-quality budget hotels remain in short supply.

Is it all bad news? Far from it. London is now arguably the finest leading city in which to eat and is certainly one of the most eclectic. While it can be expensive – you could pay £150-plus at a handful of top eateries, and the strong pound isn't helping visitors from abroad – the recession has bred a new crop of low-price lunch offers, and there are plenty of places where two could eat an evening meal with wine for about £60.

How to find your way around the capital

● Hotel prices: average room rates – including corporate deals – start at about £85 in a three-star to lower four-star basic business hotel, rising to £200 and more in five-stars.

● Taxis: black-cab drivers invariably know the way – they have to go through an extensive learning process, known as "doing the knowledge". Expect to pay an average of around £35-£40 between Heathrow and central London.

Fares from Gatwick and Stansted are negotiable. One private-hire company quotes £55 from that airport, but allow around £65 by black cab.

Charges are complex: £1.40 for the first 483 metres or 108 seconds, then 20p for each additional 241.5 metres or 54 seconds up to £9, for example. There's an additional charge for luggage or extra passengers.

● Public transport: A £3.60 daily travelcard may be bought after 9.30am and allows unlimited use in the centre and principal suburbs on all forms of public transport, including the Docklands Light Railway.

London Underground has also introduced Paris-style carnets of 10 single journey tickets for £10, which is 10 per cent cheaper than buying them individually, but they are valid only in the central zone 1 and won't get you to Heathrow, which costs £3.20 single. There is a very efficient travel information service – telephone 0171 222 1234.

Gatwick Express trains run between the airport and Victoria around the clock. They depart every 15 minutes from 5.00am until midnight, then every 30 minutes until 1.30am and hourly after that until 5.00am. The journey takes 30 minutes. Trains from Liverpool Street to Stansted, London's third and quietest airport, take take about 40 minutes. The service does not operate at night – the first train arrives at Liverpool Street at 5.41am on weekdays – but trains stop at Tottenham Hale, where you can catch a Victoria line underground train to stations including Oxford Circus and Green Park.

London City Airport, in Docklands (0171 474 5555), has services to about 20 European cities. A taxi from the City, the financial district, will cost about £25 and take 20 minutes at quiet times, up to 45 minutes in heavy traffic.

● Eating: News about the capital's buzzing restaurant scene – from special menus to chefs switching allegiances – can be found at the London Dining site on the Internet: *www.londondining.co.uk/london/dining.*

This FT quarterly review, to be published on Thursday May 15, focuses on air travel. Among the issues discussed are deregulation in Europe, [illegible] travel and the prospects for "super jumbo" airliners.

THE WEEK AHEAD

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Argos, CBI Conference Centre, Centrepoint, 103, New Oxford Street, W.C., 11.30
Glenchewton, Tallow Chandlers Hall, 4, Dowgate Hill, E.C., 11.00
Ladbroke, London Hilton, 22, Park Lane, W.1, 11.00
Mallett, 141, New Bond Street, W., 10.00
Merchants Tst, 20, Fenchurch Street, E.C., 12.30
Radius, 5, Appold Street, E.C., 10.30
Scottish Eastern Inv Tst, 20, Castle Terrace, Edinburgh, 12.00
Thompson Clive Invs, Royal Automobile Club, 89, Pall Mall, S.W., 12.00

BOARD MEETINGS:
Final:
DCC
Interims:
API
Diploma

■ TOMORROW

COMPANY MEETINGS:
Arlen, Exchange House, Primrose Street, E.C., 12.00
Asda Property, Royal Society of Medicine, 1, Wimpole Street, W., 10.30
Bardon Group, Grocers' Hall, Princes Street, E.C., 11.30
Bridgend, Stocks Hotel Golf & Country Club, Stocks Road, Aldbury, Nr Tring, Herts, 10.30
Flare, Institute of Directors, 116, Pall Mall, S.W., 10.00
Forward Technology, Barnard's Hall, Holborn, E.C., 12.00
Haden Maclellan, Great Fosters Hotel, Stroude Road, Egham, Surrey, 12.00
Kleinwort Smaller Cos Inv Tst, 10, Fenchurch Street, E.C., 12.30
Meristem, 2, Park Lane, Leeds, 11.00
MultiMedia, 222, Gray's Inn Road, W.C., 11.00
OLIM Convertible Tst, 10-12, Cork Street, W., 12.30
Partco, 2, Cornwall Street, Birmingham, 10.00
Schroder Split Fund, 33, Cutler Lane, E.C., 3.00
Secure Tst, 35, Bull Street, Birmingham, 12.30
TT Group, Ironmongers' Hall, Shaftesbury Place, Barbican, 12.00
Try Group, Cowley Business Park, Cowley, Uxbridge, Middlesex, 12.00
Wellington, 20, Fenchurch Street, E.C., 12.00

BOARD MEETINGS:
Finals:
British & American Inv Tst
Danka Business
Orbis
Time Products
Voyageur European
Westbury
Interims:
Allied Domecq
BOC
Freepages
Holmes & Marchant
Simms

■ WEDNESDAY MAY 14

COMPANY MEETINGS:
Caradon, Plaisterers' Hall, 1, London Wall, E.C., 12.00
Churchill China, Moat House, Festival Park, Etruria, Stoke-on-Trent, 9.30
Electrophoretics Intl, 35, New Broad Street, E.C., 10.00
Guinness Peat Group, Brewers Hall, Aldermanbury Square, E.C., 11.30
Home Counties Newspapers, Naval and Military Club, 94, Piccadilly, W., 10.30
IBC, Cafe Royal, 68, Regent Street, W., 12.00
Instem, The Savoy, Strand, W.C., 11.00
Legal & General Group, Barbican Centre, Silk Street, E.C., 11.30
Moorfield Estates, 135, Bishopsgate, E.C., 11.00
Page (Michael), 39-41, Parker Street, W.C., 12.00
Shell, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.30
Singer & Friedlander, 21, New Street, Birmingham, 2.00
Weir Group, Merchants' Hall, 30, George Square, Glasgow, 12.00
World of Leather, North Circular Road, N.W., 12.00

BOARD MEETINGS:
Finals:
Cable & Wireless
El Oro Mining
Environmental Inv
Exploration Co
Safeway
Interims:
Bank of Ireland
Imperial Tobacco
Sage
Sanderson Elec
Scottish Radio

■ THURSDAY MAY 15

COMPANY MEETINGS:
Arcolectric, 61, Central Avenue, West Molesey, Surrey, 11.00
CNC Properties, The Grand Union Office Park, Packet Boat Lane, Uxbridge, 11.00
Candover Invs, The Howard Hotel, Temple Place, W.C., 12.00
Chelsfield, Royal Festival Hall, The South Bank Centre, S.E., 11.00
Devro, The Glasgow Royal Concert Hall, 2, Sauchiehall Street, Glasgow, 11.00
Dolphin Packaging, Fleets Lane, Poole, 12.00
GKN, Royal Lancaster Hotel, Lancaster Terrace, W., 11.30
Independent Insurance Group, 2, Minster Court, Mincing Lane, E.C., 12.00
Jerome (S) & Sons, Victoria Works, Shipley, 11.00
Johnson Group Cleaners, The Atlantic Tower Hotel, Chapel Street, Liverpool, 11.35
Marley, Stage Theatre, Sevenoaks, Kent, 12.00
Mears Group, Salisbury House, London Wall, E.C., 11.30
Nestor-BNA, The Britannia Intercontinental Hotel, Grosvenor Square, W., 12.00
Sharpe & Fisher, Pittville Pump Room, Evesham Road, Cheltenham, 12.00
Toye, Connaught Rooms, Great Queen Street, W.C., 12.00
Vanguard Medica, Royal College of Pathologists, 6, Carlton Terrace, S.W., 3.00
Waste Management Intl, The Lanesborough Hotel, 1, Lanesborough Place, S.W., 3.00
Wolstenholme Rink, Last Drop Hotel, Bromley Cross, Bolton, 12.00

BOARD MEETINGS:
Finals:
Ferguson Int
Scottish Power
Interims:
Burton
Compass
Concentric
Grand Met
Hanson
Hay & Robertson
Majedie Invs
Scottish Value Tst
Tomkinsons

■ FRIDAY MAY 16

COMPANY MEETINGS:
Bailey (Ben), Elizabeth House, Cliff Street, Mexborough, South Yorkshire, 12.00
Bilton, Carnarvon Hotel & Conference Centre, Ealing Common, W., 12.00
British Dredging, Cardiff Bay Hotel, Schooner Way, Cardiff, 12.00
Dawsongroup, 135, Bishopsgate, E.C., 11.00
Dinkie Heel, Forte Posthouse Bristol Hotel, Filton Road, Hambrook, Bristol, 12.00
GBE Intl, GBE House, Newbury Road, Andover, Hampshire, 12.00**Graham Group**, Trusthouse Forte Hotel, Brighouse, 11.30
Malden Group, 128, Buckingham Palace Road, S.W., 11.00
Mandarin Oriental Hyde Park, 66, Knightsbridge, S.W., 12.30
Next, Institute of Directors, 116, Pall Mall, S.W., 10.45
Pittencrieff Resources, 7, Drumsheugh Gardens, Edinburgh, 11.30
Queens Moat Houses, Q.E. II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.30
Rentokil Initial, The Great Hall, Plaisterers Hall, 1, London Wall, E.C., 10.30

BOARD MEETINGS:
Finals:
Albany Inv Tst
Fine Art Devs
Ocean Wilsons
Interims:
Chrysalis
Overseas Inv Tst

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is *not* necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey National Treasury 6⅛% Gtd Bd 2003 $55.0
Akzo Nobel FL5.0
Allied Carpets 2.5p
Anglo American Ind R3.65
Ashanti Goldfields Global Dep Sec $0.25
Baring Puma Fd $0.25
Birmingham Midshires Bldg Scty FRN 1998 £158.73
British Vita 4.25p
Broadcastle 1p
BSM 5.06p
Church 12.5p
CRH IR7.12p
CU Envmntl Tst 0.5p
Evans Halshaw 11p
Mazda Motor FRN 2000 Y20395.0
More 11.4p
Nippon Express 6% Bd 1998 Y600000.0
NT & T 10⅝% Bd 2001 £102.75
Nova Scotia FRN 1999 $140.90
Prudential Fdg 9⅛% Nts May 1997 C$91.25
Semrachem Global Dep Repts R0.40
Springwood 0.5p
Sumitomo Realty & Dev 4.95% Nts 1998 Y495000.0
Svenska Cellulosa B SKr5.25
Takashimaya 6.3% Bd 1998 Y630000.0
Utd Plantations Africa R0.20
Woolwich Bldg Scty Step-up Callable Sec Fltg Rate Bd 2012 £163.07

■ TOMORROW

Avonmore Foods IR2.5p
Electrolux B SKr2.50
Fidelity European Values 0.6p
Govett Asian Smaller Co's In Tst 0.54p
Groupe Chez Gerard 1p
Healthcall 3.3p
Housing Fin 8½% Do 2023 £4.3125
Kwik-Fit 3.5p
Thorpe (FW) 1.37p
Tokyo Electric Power 7⅛% Nts 1998 £71.25
Yorkshire-Tyne Tees TV 11.2p

■ WEDNESDAY MAY 14

Abbey National Treasury 6¼% Gtd Nts 1999 $62.50 Do 10% Nts 1997 £1000.0
Coutts (CA) 2.25p
Canadian Pizza 2.8p
Glenchewton 0.9p
Manchester United 1.9p
Staffware 1p
Torex 1.6p

■ THURSDAY MAY 15

Abbott Labs $0.27
Alliance Tst 4½% Do £2.25
Allied Leisure 0.33p
BES C'ssee Ser A FRN Pf $0.45
Barclays 16% Un Cap Ln 2002/07 £8.0
Bergesen A NKr1.0 Do B NKr1.0
Birmingham 11½% Rd 2012 £5.75
Bundene Invs 15% Un Ln 2007/12 £7.50
Chester Asset Rcvbls No 3 Asset Bckd FRN 2008 £1496.94
City Mortgage Rcvbls 1 Mtg-Bckd FRN Feb 2023 Ser1996-1 £43.46
Do Oct 2023 Ser 1996-2 £47.82 Do 3 Class A Mtg Bckd FRN Oct 2023 £46.62 Do Class B £60.53
Do 4 Class A Mtg Bckd FRN Aug 2028 Ser 1997-1 £50.10 Do Class B £60.53
Do 5 Class A Dfd Int Mtg Bckd FRN Sep 2032 £49.23 Do Class B £70.80
Colgate-Palmolive $0.55
Conversion 9¾% 2006 £4.875
Euro-Vip Sec Var Rate Nts 2030 Ser B $33487.57
Export-Import Bank of Japan 6⅝% Gtd Bd 2007 FFr662.50 Do 10¾% Gtd Bd 2001 £107.50
Five Oaks Invs 0.4p
F & C Smaller Co's 6% Cm Pf £2.10
Forth Ports Authority 3¾% Fd Debt £1.875
Fulmer 5p
GESB 8.35% Gtd Bd 2016 £41.75
Gates (UK) 4¼% Rd Do £2.125
Glasgow 3½% Ird £1.75 Do Gas 6¾% Ann £3.375
Do Gas 9% Ann £4.50
Do Water Ann 30p Do Waterworks Fd Debt 3½% £1.75 Do
Waterworld Fd Debt 4% £2.0
Halifax Bldg Scty 9⅜% Sb Bd 2021 £937.50
Hambros Inv Tst 5% Cm Pf 1.75p
Hasbro $0.08
Inter-American Dev Bank 9¾% Ln 2015 £4.875
Investors Cap Tst 4% Do £2.0
Johnston Press 1.7p
Kalon 3.5p
Lambert Howarth 5.25p
Marsh & McLennan $0.90
Ottawa-Carleton 9⅝% Do May 2006 $96.25
Prospect 2 Class B Nts 2007 £1655.14
Do Class C Asset Bckd Cts 2010 £839.90
Quarto 5.8p
SIG 4.8p
Sanwa Bank Canada Gtd Fxd/FRN 2005 $1432.40
Showa Fin Aruba Gtd Step-up FRN Nov 2004 $1459.29
Scottish American Inv 4% Ird Db £2.0
Scottish Eastern Inv Tst 0.17p Do 4% Do £2.0 Do 4%
Perp Db £2.0
Scottish Mortgage & Tst 4½% Do £2.25
Second Alliance Tst 4½% Db (1995) £2.25
Sonar Class A Mtg Bckd FRN 2021 £129.59
Do Class B £177.87
Do Class C £198.13
Standard Chartered Und Prim Cap FRN (Ser 2) $292.24

■ FRIDAY MAY 16

BASF DM1.70
Britannic Assurance 23p
British Polythene 12p
Caps 3p
Commercial Union 18.85p
Courtaulds Textiles 10.1p
Dinkie Heel 1p
EBC 1.5p
FBD IR4.35p
GKN 16.9p
Jardine Lloyd Thompson 3p
Jeyes 1p
Kingsbury 2.5p
Mayflower 1.5p
Mears 0.2p
Minerals Oils & Res $0.20
Minorco $0.42
Morrison (Wm) Supermarkets 1.375p
Nottingham 3.91p
Pittards 2.5p
Premier Oil 0.55p
Premium Tst 1.5p
Pelon 1.8p
Radius 1.1p
Rathbone 7.5p
Rosebys 6.7p
Servomex 5.8p
Whatman 8.8p

■ SATURDAY MAY 17

Baldwin 2.5p
Rentokil Initial 3.68p

■ SUNDAY MAY 18

ARTS

OPENINGS

PRAGUE
Tonight's inaugural concert of the Prague Spring festival marks the re-opening of the Smetana Hall after refurbishment of its magnificent Jugenstil interior. Alongside foreign guests such as Yan Pascal Tortelier (above), the festival features the cream of Czech musical life, and for the first time includes a significant jazz element.

GLASGOW
The opera *Resurrection*, by Peter Maxwell Davies, receives its UK stage premiere on Wednesday at the Theatre Royal, in a production imported from Holland. The work, a savage parody of traditional values, was first performed in Darmstadt in 1988, but has not achieved the popularity of Maxwell Davies's other stage works.

WARSAW
The Philadelphia Orchestra, under its music director Wolfgang Sawallisch, opens a European tour at the National Theatre on Wednesday. Over the following two weeks the orchestra will visit Florence, Rome, Venice, Paris, Brussels, Amsterdam and Madrid. Friday's concert in Cologne features the European premiere of Wolfgang Rihm's latest orchestral work, *Serious Song*.

BASLE
The 500th anniversary of Hans Holbein's birth is celebrated at the Kupferstichkabinett on Wednesday. Some of his finest drawings (above) are being exhibited alongside examples by Dürer and Grünewald (right). A parallel show of prints brings together all 340 works in the city's collection. Both exhibitions run till August.

GLYNDEBOURNE
Glyndebourne Festival Opera's 1997 season begins on Sunday with Puccini's *Manon Lescaut*, marking the Glyndebourne debut of John Eliot Gardiner. He conducts a staging by Graham Vick, with Romanian soprano Adina Nitescu in the title role.

SALZBURG
Colin Davis brings the London Symphony Orchestra to the Grosses Festspielhaus on Saturday for three Whit weekend concerts. This is the 25th and last time that Salzburg's Whit concerts will take place in their present form. From next year, they will be given in a new concert hall at Baden-Baden in Germany, while Salzburg hosts a baroque mini-festival.

DRESDEN
Dresden's music festival opens on Saturday with a concert conducted by Kurt Masur (left) in the Kulturpalast. The main thrust of this year's programme is Italian music of the baroque and bel canto eras. There are stagings of rarely-heard operas by Paisiello, Rossini and Galuppi, and Dresden's churches are hosting concerts of Italian sacred music.

PARIS
On Wednesday, at the Palais Garnier in Paris, the Opera Ballet begins a run of performances of Pierre Lacotte's intriguing re-staging of *La Sylphide* – with varied and fine casts which include the sublime Elisabeth Platel.

LONDON
The director Sam Mendes, who has turned his attentions before to such musicals as *Oliver!* and *Company*, now takes up a new musical, *The Fix*, by John Dempsey and Dana P. Rowe, and presents it at his Donmar Warehouse. The production opens tonight and features John Barrowman and Kathryn Evans.

The live Disney show *Beauty and the Beast*, already a New York hit, opens at the Dominion Theatre tomorrow.

Making his directorial debut at Cannes: Gary Oldman (left) on the set of 'Nil By Mouth', photographed by Jack English whose prints can be seen at the Photographer's Gallery, London WC2 from June 10-27; and (right) a scene from 'Welcome to Sarajevo', directed by Michael Winterbottom

Cinema's Cinderella no more

Nigel Andrews in Cannes finds British movie makers ruling supreme amid the madness on the Med

Anyone who believes that to reach 50 is the beginning of wisdom had *better* come to Cannes (there is still sleeping room on the beach).

The madness on the Med has reached a new pitch this year. More crowds, more hype, more razzmatazz.

And on the facade of the Palais des Festivals, two 65-foot-high golden palmfronds flanking a giant *trompe l'oeil* mural that extends the real stairway below into an infinity.

Above the mural at night are raking searchlights, no doubt seeking a blessing for the festival from someone in the Heavens. It might come from one of the departed greats such as Hitchcock, Welles, Fellini or Truffaut whose images dot the painted stairway, while the one below is trod by living, flashbulb-strafed VIPs like Bruce Willis, Demi Moore and Michael Jackson.

Meanwhile, we critics struggle bravely through the *mêlée* to watch movies. My back, an old foe, gave out on the second day, no doubt on the orders of my brain. Getting out of bed the next morning required 30 separate movements and I had to say *"Non, desolé"* to the lovely-sounding but physically-demanding invitation to lunch on a yacht.

What balm for the back, however – and mind and soul – to find Britain once more in charge of the movie culture.

What is happening to this nation once deemed the Cinderella of cinema?

Last year at Cannes it was *Secrets And Lies*, this year at the Oscars *The English Patient*. Now Gary Oldman's *Nil By Mouth* and Udayan Prasad's *My Son The Fanatic* have seized the early thunder in the Competition and Directors' Fortnight respectively.

Movies directed by famous actors are a mixed blessing. Most attract advance curiosity, rewarded in the performing department but frustrated in those of script and structure.

Nil By Mouth, directed by Oldman from a script based on his working-class London childhood, is faulty in form but explosive in content.

Alcoholism, violence, sexism, racism – all the things Oldman evidently got enough of at home he dramatises with a stunning cast. This is led by Ray Winstone as the family psychopath, Kathy Burke as his beaten, miscarrying wife and Charlie Creed-Miles as the young second-generation drug addict who kicks the habit only to be all but kicked back into it.

Oldman's direction is, to put it mildly, in your face. The close-ups almost crunch our noses; we can scarcely breathe in the smoke-swirled pubs. Yet the film has a wonderful drivenness, as if the director *had* to make it and left no crack of opportunity for pretension or patronage in his viewpoint.

Sole reservation – one wishes a co-writer had been employed to hone and tighten, and to trim two gauche scenes of special pleading in which tha sins of the present are "explained" by the traumas of the past. Yes, yes, we feel like saying, dropped on your head as a child, what a shame. But these scenes are always the psychological equivalent of "the dog ate my homework" (the parents ate my psyche) and audiences, like schoolteachers, like to appraise end-products not hindsight excuses.

My Son The Fanatic boasts the best Hanif Kureishi script since *My Beautiful Laundrette*.

Here are more family troubles on the fringe of British society. This time, though, the youngster is the demon, as the son of an Indian immigrant taxi driver (*City Of Joy's* Om Puri) turned fundamentalist.

The boy fills the home with a Maharishi and disciples, whose messianic misogyny bans mum to the kitchen while waging war on the city's streetwalkers. One of these (Rachel Griffiths), it so happens, is awakening new romantic fires in dad.

This funny, tender movie brought waves of applause from the audience.

Where Prasad's debut *Brothers In Trouble* showed he was a gifted miniaturist, his second movie is larger and richer with no loss in refinement.

What could have been a immigrant version of the generation-gap slapstick of television's *AbFab* – the middle-aged having *their fun ruined* by the puritanical young – is human as well as hilarious.

The least convincing British film has been Michael Winterbottom's *Welcome To Sarajevo*.

In *Butterfly Kiss* and *Jude* this director showed his skill at making the outlandish seem everyday. Here he makes it seem banal, which is quite different. The film is based on ITN reporter Michael Nicholsoo's memoir of the war, and of his own conflict between newscaster neutrality and a growing emotional investment that ended with him adopting a Bosnian child.

Stephen Dillane conveys no conflict at all, except tbat between his slick minimalism as an actor and the piously sentimental convulsions of the script.

While the bread-queue massacre and other borrors are given a graphic but brief airing, we are asked to agonise endlessly about the frontline orphanage.

It is as if the problems of adults matter not a hill of beans next to those of children, whose instant appeal as victims no doubt assures the film a long box-office life while Bosnia's slain or maimed over-tbirties are consigned (much as they were on television) to oblivion.

Elsewhere it has been lottery time at Cannes. The jackpot combination of great subject and great talent that makes a masterpiece has yet to come up.

Both Marco Bellocchio's *The Prince Of Homburg* and Wim Wenders' *The End Of Violence* promised more than they delivered, thougb Wenders' star-strewn fable about life and death in Hollywood is at least a beautifully-constructed plaything, with Bill Pullman, Andie McDowell and Gabriel Byrne gazing across indoor and outdoor landscapes that are part Hockney, part Hopper.

The annual parking space for a Far East furor has been taken by a movie shown out of competition. When Zhuan Yang's gay psychodrama *East Palace, West Palace* was programmed and shown on the second day at Cannes, China withheld not just Zhuan's passport but also that of premier Chinese filmmaker Zhang Yimou, whose new film was a scheduled contender – though not any more – for the Palme d'Or.

Zhang, currently directing opera in Italy, will not be mounting the red stairs later alongside expected Cannes celebs like Sean Penn, Gene Hackman and Clint Eastwood.

East Palace, West Palace is admittedly a gasp-inducer from China, a Genet-like tale of erotic power games between a young homosexual and a police officer.

But since homosexuality is not illegal in China – the government position is that it "does not exist" – it seems sad that Beijing could not have dismissed Zhuan's movie as a fantasy: one of those SciFi-ish tales about a world remote from Chinese experience in which people make free decisions to live free lives in the pursuit of love, happiness and self-fulfilment.

Opera

Traviata recovers

The doctor in *La traviata* writes off Violetta's chances pretty smartly as did most critics for English National Opera's recent production of the opera. I was one of them, so it is heartening to find it unexpectedly being brought to life.

Put in a staff producer who is not afraid of doing away with previous sillinesses, hire singers who are prepared to go out and sell the opera, and with luck a good, standard performance will come out of it. This *Traviato* may not deal in carefully-considered nuances, as Jonathan Miller intended when it was new last autumn. But it is not boring, or pale, or effete, or lacklustre, as it most certainly was then.

Violetta's trendy trouser-suit in Act One has gone off to the charity shop and she now wears a black velvet gown with long gloves, like other Violettas. There were not many other ideas to dispense with, so Leah Hausman has just moved everybody into the right place to pnt the drama across (not much can be done abont the dull sets). It all works rather well, given a stronger-than-usual cast of singers.

Susan Patterson has made a name for herself singing Violetta around the US and her sizeable soprano pays dividends at the London Coliseum. Here is a singer who knows how to project both her voice and her personality. Her Violetta is no shrinking violet. In party mode, Patterson plays the toast of society, a knowing and manipulative courtesan. Faced with a difficult future father-in-law, she could wipe the floor with most Giorgio Germonts, thongh Christopher Booth-Jones's bristling Victorian father-figure is fortunately not one of them. Could her acting suggest the necessary fragility in the death scene? In this production she hardly has to try, as Violetta never moves from her bed. Instead we could concentrate on quiet singing with some lovely, luminous tone.

Her Alfredo is Julian Gavin, who sings with well-schooled long phrases and rises impressively to the big vocal moments. He really is not much of an actor, but ENO is probably so glad to have a tenor with top notes like these, they do not care. There is also more pace and passion than before, as Noel Davies seems to have discovered where fourth gear is since he conducted the last set of performances. All told, an unforseen pleasure.

Richard Fairman

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Borodin Quartet: with clarinettist Eduard Brunner and pianist Ludmila Berlinskaya perform works by Prokofiev, Mozart and Shostakovich; May 16

EXHIBITION
Van Gogh Museum Tel: 31-20-5705200
● Vienna 1900: Portrait and Interior: exhibition featuring paintings and applied art from Vienna, spanning the years 1870-1916. Highlights include works by members of the Wiener Secession movement (with Gustav Klimt es its most important representative) and portraits by the Expressionist artists Egon Schiele and Oskar Kokoschka; to Jun 15

BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Rundfunk-Sinfonieorchester Berlin: with conductor Heinz Rögner and violinist Matthias Wollong perform works by Casella and Schubert; May 16

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Susannah: by Floyd. Conducted by Christian Arming, performed by the Deutsche Oper Berlin. Soloists include Karan Armstrong and Dean Peterson; May 16

BRUSSELS

CONCERT
Palais des Beaux-Arts Tel: 32-2-5078200
● Orchestre National de Belgique: with conductor Barry Wordsworth and horn-player Marie-Luise Neunecker perform works by Debussy, R. Strauss and Stravinsky; May 16

BUDAPEST

EXHIBITION
Hungarian National Gallery Tel: 38-1-17575333
● Magnificat anima mea dominum: display of fine art from the late Gothic period, with the restored panel painting "The Visitation", dated 1506 and signed by Master M.S., a particular highlight; to May 25

COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Philadelphia Orchestra: with conductor Wolfgang Sawallisch and violinist Frank-Peter Zimmermann perform works by Rihm, Schumann and Brahms; May 16

COPENHAGEN

DANCE
Det Kongelige Teater - The Royal Theatre Tel: 45-33 69 69 69
● Royal Danish Ballet: perform Peter Martins' choreographies "Ash" to music by Torke, "Zakouski" to music by Rachmaninov, Stravinsky, Prokofiev and Tchaikovsky and "Fearful Symmetries" to music by Adams; May 13

LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Joachim Piano Trio: perform works by Schumann, Pärt, Liszt and Schubert; May 15
Queen Elizabeth Hall Tel: 44-171-9210600
● Bournemouth Sinfonietta: with conductor Roy Laughlin perform works by Verdi, Donizetti, Bellini, Janácek and Massenet; May 14
Wigmore Hall Tel: 44-171-9352141
● Stephan Genz: performance by the baritone, accompanied by the pianist Roger Vignoles. The programme includes works by Schumann and Wolf; May 16

EXHIBITION
Hayward Gallery Tel: 44-171-9604242
● Material Culture: The Object in British Art of the 1980s and 90s: exhibition bringing together three-dimensional works made during the last 20 years. Among nearly 40 artists represented are Tony Cragg, Douglas Gordon and Damien Hirst; to May 18
Museum of Mankind Tel: 44-171-3238525
● The Gilded Image: Pre-Columbian Gold from South and Central America: exhibition ehowing pieces from the museum's South and Central American gold collections epanning some 1,500 years and ranging from Peru, Ecuador and Colombia to Panama and Costa Rica; to Dec 31
Whitechapel Art Gallery Tel: 44-171-5227888
● Antechamber: exhibition of work by five artists: Francis Alys, e Belgian painter who commissions billboard copies of his work; David Austen, a British painter influenced by images of antiquity; Claude Heath, a British artist who produces giant wall drawings while blindfolded; Steven Pippin, a British artist who finds unaxpected uses for technology; and Annelies Strba, a Swiss photographer who uses multiple projectors; to May 18

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Vera Martinez Mehner: performance by the violoinist, accompanied by the pianist Juan Carlos Garvayo. The programme includes works by Falla, Chausson, Mozart and Brahms; May 16

MILAN

DANCE
Teatro alla Scala di Milano Tel: 39-2-88791
● Swan Lake: choreographed by Rudolf Nureyev to music by Tchaikovsky, performed by the Corpo di Ballo del Teatro alla Scala. Soloists include Lucia Lacarra, Oliver Matz; May 14, 16

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Mitsuko Shirai: performance by the mezzo-soprano, accompanied by the pianist Hartmut Höll. The programme includes works by Franz, Castelnuovo-Tedesco and Pfitzner; May 13
Avery Fisher Hall Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein, perform works by Dvorák and Brahms; May 14

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● American Paintings: Ashcan and Modernist: display of works taken from the museum's own collection of paintings from the first half of the 20th century. Featured artists include Florine Stettheimer, Marsden Hartley and Georgia O'Keeffe; to Jun 29

PARIS

CONCERT
Théâtre de l'Opéra Comique Tel: 33-1 42 44 45 46
● Philip Bride, Paul Boufil and Jacques Rouvier: the violinist, cellist and pianist perform works by Beethoven, Schumann and Schubert; May 15

EXHIBITION
Galerie Nationale du Jeu de Paume Tel: 33-1 47 03 12 50
● Jaume Plensa: display of works produced by the sculptor between 1991 and 1996. Plensa uses iron but in a minimalist style that allows natural resources, particularly light, to play a major role in his pieces; to May 18

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Radio Symphonieorchester Wien: with conductor Dennis Russell Davies and pianist Stephen Drury perform works by Skriabin, Britten and Zorn. Part of the Internationales Musikfest der Wiener Konzerthausgesellschaft; May 14

EXHIBITION
Kunstforum der Bank Austria Tel: 43-1-5320644
● William Turner. Die Retrospektive: exhibition devoted to the work of the British painter, focusing on landscapes, seascapes and historical paintings. Tha display features some 70 paintings; to Jun 1

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Financial Times Business Tonight

End of a golden era

Vanessa Houlder weighs up the claims that there is little left for scientists to discover

A scientist's lot is not always a happy one. In the struggle to raise funds and win support for their work, researchers have to contend with a public that often seems more interested in New Age vacuities than the achievements of scientific thought.

Now, on top of everything, scientists are being told that the golden age of science is ending: there is simply nothing left of note to discover.

This dismal message is promulgated by Mr John Horgan, a writer for Scientific American, whose provocative book, *The End of Science*, was published in the UK last week. His thesis is that scientists have answered all the big questions. All they can look forward to is working on the details.

Unsurprisingly, the book's message has not gone down well in the scientific community. It has been criticised by the science adviser to US president Bill Clinton, the administrator of Nasa, the US space agency, and a dozen Nobel laureates.

The most common reaction to the book – a brisk tour through the burning issues of modern science, with thumbnail sketches of the most famous scientists and philosophers of science of our time – is to acknowledge that it makes an entertaining read, while dismissing its arguments as unconvincing.

Mr Horgan is unrepentant. The criticisms have reinforced his belief in the argument that the most important scientific discoveries – such as evolution, Big Bang and quantum mechanics – have been made. "I think we have the basic framework in place for understanding the physical and the biological world. The rest is filling in the details," he says.

Mr Horgan is not alone in advancing this argument. He echoes the sentiments of some exceptional scientists, including the late Richard Feynman, the Nobel-prizewinning physicist, who wrote in 1965: "The age in which we live is the age in which we are discovering the fundamental laws of nature, and that day will never come again... the excitement will have to go."

But even Feynman conceded that "in the future there will be other interests", citing biology and planetary exploration as examples. Mr Horgan seems loath to admit that these other interests are worthwhile.

Horgan: science is not simply waiting for another genius

He skates over developments in molecular biology – one of the most exciting areas of modern science. His discussion of medical advances is limited to pointing out the disappointing progress in the treatment of cancer and casting doubt on science's ability to conquer such a complex disease.

> 'I think we have the basic framework in place for understanding the physical and the biological world. The rest is filling in the details'

In general, he thinks the prospects for applied science are over-rated. "I think a good case can be made that applied science, too, is rapidly approaching its limits," he says. Citing fusion energy as an example, he claims that progress in applied science will be thwarted by a combination of economic, political and technical issues.

He is also damning about the prospects for neuroscience and social science, but for different reasons. This time, his doubts are based on the premise that the subjects are just too difficult to get off the ground.

Psychology, for example, has proved intractable. "We are still arguing over Freud. There have been empirical advances in mapping the brain, but it doesn't add up to a clear picture," he says.

He is fiercely critical of science for its failure to understand and provide improved treatments for mental illness.

Mr Horgan is convinced that the problem does not lie with the limitations of today's scientists – science is not simply waiting for another towering genius such as Einstein to come along. Indeed, he believes that the calibre of scientists is better than it has ever been, in much the same way that modern athletes are able to break the records of their precursors.

In Mr Horgan's view, the problem is that the best minds in science have run out of things to discover. "The smartest people in the world are working away on things that don't have any connection with reality," he says.

They preoccupy themselves with speculative concepts such as "superstring theory", "parallel universes" and the "Gaia hypothesis". These are all examples of what Mr Horgan dubs "ironic science", which has more in common with literary criticism, philosophy and theology than empirical science.

The claim that there are no real, worthwhile issues left to be explored in science sounds disconcertingly like an echo of concerns raised at the end of the last century, although Mr Horgan does not accept the comparison.

Moreover, the claim that science has reached the end of the road smacks of arrogance, given the extraordinary brilliance required to foresee the future of science.

As Mr Philip Anderson, the Nobel laureate, put it in a review of Mr Horgan's work: "Normal science... can be described as a search for answers, great science as a search for questions, the greatest science as a search for the form the answers may take."

Yet Mr Horgan denies the charge of hubris. The belief that science will continue indefinitely is itself a sign of our inborn vanity, he claims. It is far more likely, he says, that the explosion of knowledge and technology that has marked this century is "an anomaly that will – must – end".

The End of Science, John Horgan. Little, Brown. £18.99.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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UK role should be to counteract Franco-German tandem in EU

From Professor S.A. George.

Sir, John Kampfner ("Not quite triangular, but less edgy", May 8) appears to interpret the comments of Klaus Kinkel, the German foreign minister, following his first meeting with Robin Cook, the new British foreign secretary, as a mild snub to what are reported to be British aspirations to join Germany and France in a triangular leading role in the EU. In fact, it is more likely that Mr Kinkel was simply showing sensitivity to the concerns of the governments of the other 12 member states of the EU, among which there is suspicion of the emergence of any *directoire* of large states.

Mr Cook and his deputy, Mr Douglas Henderson, would be well advised to share this sensitivity, and to eschew the language of triangular relationships and leadership. Such diplomatic successes as Britain achieved in the EU under the Conservative government were usually the result of working together with other member states to counteract the influence of the Franco-German tandem, and this remains the best option for achievement of British interests within the EU.

Unfortunately, there are voices within the Foreign Office which still cling to the remnants of the "illusion of grandeur" that served us so badly in Europe in the past, and now argue that we should "play with the big boys" and not tolerate interference from smaller states. This is incompatible both with the supposed British respect for the independence of all member states and with the effective achievement of UK objectives.

S.A. George,
department of politics,
University of Sheffield,
Northumberland Road,
Sheffield S10 2TU, UK

Flaws arising from Bank independence

From Mr Patrick Dennis.

Sir, As a long-time opponent of central bank independence, especially in my former role as a chief economist in a leading international bank, I feel I should point out that this policy measure is not the panacea to the control of inflation in the same way that ERM membership was not.

The arguments for central bank independence are well rehearsed. Depoliticising the setting of interest rates boosts policy credibility and should deliver lower inflation. However, unless you believe in pure monetarism – ie, that inflation is always a monetary phenomenon – independent control of monetary policy will not guarantee low inflation.

Monetary and fiscal policy must be co-ordinated to achieve this and to have the most effective economic management. Unfortunately, what has been seen in a number of countries with central bank independence is that fiscal laxity is the result of excessive monetary tightness. This has happened in Germany in the 1990s as well as in the US in the early 1980s – which led to massive overvaluation of the dollar.

Anyone who doubts that the Bank of England will not make the same mistakes should recall its recommendations to enter the ERM at a higher entry level than the UK did, and its repeated calls for higher interest rates in the monthly monetary meetings between the governor of the Bank of England and the chancellor of the exchequer.

Furthermore, will New Labour not be tempted to spend and raise the budget deficit when the level of interest rates becomes excessive?

Patrick Dennis,
79 Greenwich South Street,
London SE10 8NT, UK

From Mr S.K. Rao.

Sir, You welcome the chancellor's decision to give the Bank of England operational autonomy ("Chancellor's Bank credit", May 7). While this step may lead in greater confidence in the inflation performance of the British economy, and therefore result in lower interest rates than would otherwise be so at any time, there is also a distinct danger of introducing a deflationary bias in the management of the British economy.

The pursuit of Maastricht criteria is already constraining economy activity in Europe. Can the mandate of the Bank of England be set to include not only the pursuit of the inflationary target but also a growth target, within a given range? Without the monetary policy committee paying attention to growth considerations also, the chancellor's objective of reducing unemployment is likely to suffer – a consequence which he may live to regret.

S.K. Rao,
5 Mansfield Gardens,
London NW3 5SJ, UK

From Mr William Hodgson.

Sir, If decision-making on monetary policy should be free from short-term political manipulation, then the same logic applies to taxation, exchange rate policy, government spending and the inflation target.

Let's make the Bank of England responsible for everything economic, and scrap all these unnecessary meetings with politicians.

William Hodgson,
Field Cottage,
Trotton,
Petersfield,
Hampshire GU31 5JN, UK

Savage outcome of variable cost problem

From Mr A.J. Lucking.

Sir, John Kay's interesting article "Cars and capacity" (May 2) recalled a wise chairman who instructed me "Never sell for less than twice the variables", which I felt was rather cramping. It was some years before I realised that what he was actually saying was "You engineers don't recognise half the costs that are variable!"

I have wondered if this problem affects the airlines. Historically, the advent of competition in public passenger transport operations generates excess capacity, which in the airlines is assigned to the rear cabin.

Often, managers are taught that any revenue beyond passenger service charges, catering and the marginal fuel cost is better than having an empty seat. Hence the losses reported in the rear cabins, and the consequent need to overcharge the "on demand" passengers savagely – including those buying full fare economy tickets, who nowadays are often charged 160 per cent to 180 per cent of cost.

Unhappily, many of the airlines serving Heathrow have synchronised their fares at the same high level, though I notice a small but increasing number of UK-originating long-haul passengers are choosing to transfer at continental European airports, to avoid what have become, since airline "profitisation", Europe's highest first and business class fares.

A.J. Lucking,
20/17 Broad Court,
London WC2B 5QN, UK

Issue openly discussed

From Mr Pedro M. Lamport.

Sir, I was surprised to read ("Central America deals on open skies expected", April 30) that I had leaked the news of the impending open skies accords in a USA Today interview.

I must set the record straight and make you aware that this information did not need to be leaked as the open skies issue was openly discussed in a meeting with USA Today's editorial board on April 28. These accords were one of several issues discussed in relation to President Clinton's visit to Central America on May 8.

It is worth underscoring that the signing of these accords will accomplish one of many objectives aimed at implementing free market policies across the region.

Pedro M. Lamport,
ambassador,
Guatemalan Embassy,
2220 R Street, N.W.,
Washington DC 20009, US

Iri position endorsed

From Mr Sergio Bruno.

Sir, With reference to Robert Graham's article "Industrial row widens in Italy" (April 30), I would wish to make the following comments.

It is not true that Italy's treasury minister, Mr Carlo Azeglio Ciampi, distanced himself from Iri's decisions on Finmeccanica. As a matter of fact, Iri had regularly informed the treasury minister in advance of all these decisions and he had fully endorsed Iri's position. Moreover, all Iri's decisions were taken within the ambit of the treasury's privatisation strategy.

It is also not true that "Iri has a poor record on privatisation", as Mr Graham states. In the last four years Iri has realised L23,000bn from the sale of more than 300 companies in various sectors. Of this, L15,000bn comes from privatisations, through the sale of controlling stakes. Iri has to date privatised entire industrial sectors of its stock (steel, banking, food, distribution networks, plant engineering), achieving results that are among the highest in Europe in the field of privatisation. It is surprising that Mr Graham has overlooked this.

Sergio Bruno,
Iri press office head,
Instituto per la Ricostruzione Industriale,
Via Vittorio Veneto, 89,
00187 Rome, Italy

Personal View · **Louis C. Kleber**

Retire early, work late

There is a simple, if crazy-sounding, solution to the problems of an ageing society

& I have an idea. It will solve the problem of funding healthcare for the elderly, the state pensions problem, the ageing problem and a lot of others.

For decades now, politicians and socio-economic planners have had it all backwards. When the great truth dawned on me, I thought: "It's all so simple."

But maybe that's the real problem; we make fundamental simplicity an unfathomable morass. Actually, I have had this idea for years, but no one listened because we were so wrapped up in established thinking.

Here it is: everyone will retire at age 21 and go to work at age 65.

That is not as crazy as it sounds. We are a rapidly ageing society, and the diminishing number of working young people cannot go on supporting the oldies.

It has to stop, and the way to do it is a complete reversal of our present concepts – 180 degrees. The benefits from this change would be quite staggering:

- Enormous amounts of money would flow into the economy – billions upon billions would be released from pension funds now held in trust for retired people. They would not need it – they would be hard at work.

Of course, this means retired politicians would have to go back to work like the rest. No more endless rounds of golf for President Ford in Palm Springs; the Bush family would have to leave the vacation home in Kennebunkport, Maine, and get back into active business; and it would be hands-on grubbing for peanuts with Jimmy Carter. The nation must not be swayed by their objections.

- That useless feeling retired people get would vanish – they would be working until they dropped to building a new country. Their inspired sacrifice and taxes would plough money into the public coffers while the golden years would take on a new meaning. It would be something really to look forward to, a chance to contribute more than the effort it takes to make a hammock swing back and forth.
- Social Security and Medicare solvency problems would be gone – because the over-65 group is growing so fast, their money would pay for healthcare and social security.

And active people are healthier people. It is a double benefit. The boon for shrinking numbers of younger people would be unparallelled.

- Higher education would enter a new age of enlightenment – without the need to work, young people could concentrate on postgraduate studies.

What an opportunity for brilliant minds to launch science into the 25th century, for composers to reawaken the civilising splendour of Beethoven, Verdi, Strauss and others who made life in the 19th century so rich, and for educators to approach their profession in unhurried wisdom.

- Raising children would be a pleasure – parents would have the time to bring up their children. They would not be working in a desperate effort to "make it big" so they could retire in their 50s.
- All the politicians would be oldies – bringing a wealth of experience to government. No more smart-ass kids with jam on their faces telling us what needs to be done. There would not be any 35-year-old senators or congressmen.

We stand at the crossroads of a new era. Deo gratias!

The author is a corporate pensions consultant and writer, now retired and living in Las Vegas

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
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The looting of Zaire

The dacades-long looting of Zaire by President Mobutu, spelt out in today'a FT, raises some uncomfortabla questions for his western sponsors, bankers, and business partners.

For years it has been clear that Mr Mobutu, his family and cronies were stealing western aid funds, government revenues and the export earnings of Zaire's state-owned mineral businesses.

Yet weatern governments turned a blind eye. They preferred to support Mr Mobutu as a bulwark against what was seen as the threat posed by the former Marxist regime in neighbouring Angola.

Thay cannot claim ignorance. Mr Erwin Bhumenthal, a senior official at the Bundesbank who became director of Zaire's central bank, pointed the finger in 1979 and again in 1982. In reports to the IMF, he made clear that corruption was the central feature of life in Zaire, and that the president was directly to blame. Yet the fund continued to lend to Zaire at an accelerating pace.

The lesson for the multilateral financial institutions is to trust the jndgments of their staff, and to avoid allowing political considerations to shape lending policies.

There is a broader question for the international commnnity, however. What should be done to ensure that kleptocrats – thieving rulers – surrender their ill-gotten gains? The wealth they bave stolen and hidden abroad belongs to the citizens they have exploited; yet wben their regimes are overthrown it is often extremely hard to reclaim the money.

Perhaps what is needed is an international convention on the restitution of such thefts. This would make it easier to find ways round bank secrecy laws, providing agreed procedures for identifying and reclaiming the profits of kleptocracy. The UN might wish to ask the Bank for International Settlements to draft such a convention.

With or without such agreements, private sector bankers and business managers will continue to face the dilemma of whether to deal with corrupt regimes. There is rarely anything illegal in such transactions, for kleptocracies can create their own legal title to the assets they mis-appropriate.

But legal constraints are not the only considerations in business; ethics matters too. The principle that *pecunia non olet* – money does not smell – is only a short-term defence. In the long run, financial institutions which accept money without scruples damage their own reputations, and weaken confidence in the international financial system. Bankers should think twice before doing business with kleptocrats.

Asia's tests

So much ink has already been spilt on the roots of East Asia's development "miracle". Many will wonder whether the Asian Development Bank needed to produce another hefty tome on the subject, "Emerging Asia: Changes and Challenges", released yesterday at the bank's annual meeting in Japan. The conclusions of the report as to the causes of Asia's economic success are familiar. However, it does bring walcome attention to the challenges the continent will face in the years ahead.

First will be tackling poverty. The "Asian Tigers", after all, are a select bunch. In 1965, average GDP per person in Hong Kong, South Korea, Singapore and Taiwan was only 17 per cent that of the US. By 1990, it was 57 per cent. But large parts of Asia – and a great many Asians – have not seen anything like this improvement. Most striking, average GDP per head in Bangladesh, India, Pakistan and Sri Lanka in 1990 was still only 8¾ per cent that of the US in 1990, the same as it had been in the mid-1960s.

As the report notes, around 1bn people, or one-third of the Asian population, live in poverty: more than in Latin America and sub-Saharan Africa combined. Moves under way to open up some of these economies and encourage faster, labour-intensive growth will do a great deal. But there is also room for more direct anti-poverty efforts, including "micro-credit" institutions to ease poor people's access to credit and targeted expansion of primary education, particularly for women.

Challenge number two will be to tackle the worst side-effect of Asia's development success – the degradation of the environment. Some 13 of the world's most polluted cities are in Asia, and the continent's natural resources are under pressure. In the past 30 years, for example, forest cover and fish stocks have been cut in half.

The report argues that such problems will only get worse if Asian governments do not start valuing the environment as other goods are valned, by establishing clear property rights to natural resources and well-functioning markets. More effective regulation and public investment ought to support these efforts, but they cannot substitute for them.

A final message of the report is broader. Every Asian country is unique. Even among the East Asian high performers, every country faces a distinct set of policy priorities in seeking to build on its past success. But nearly every government will need to a long hard look at its institutions, both public and private. Only a handful of Asian economies have well-developed legal systems; yet in Asia, as elsewhere, a transparent and effective rule of law will be critical to continued growth. Asia has much to be proud of – and also much to prove.

Chess masters

This was a contest between "the best chess player in the world and Garry Kasparov," chortled Lonis Gerstner, chairman of IBM. Certainly, the match which ended in New York last night was something of an end-of-millennium milestone for computer buffs everywhere.

That Deep Blue should be able to stand up to a man regarded as one of tha strongest world champions of the age is testament to the progress made by artificial intelligence and a tribute to human ingenuity. But what does it signify?

The answer lies in the question: can Deep Blue play chess? Philosophers such as John Searle of California would answer in the negative. The revamped IBM RS/6000 SP machine can consider 200 moves in a second, thanks to its 32 parallel microprocessors; it can even get its tactical program tweaked between games. But it does not know what it is doing.

Many computer scientists and most neuroscientists would say that Deep Blue is intelligent in spite of the obvious difference between biological and electronic brains. They would accept the test applied by the mathematician Alan Turing, godfather of the general purpose computer, and say that if the output of the man and of the machine is indistinguishable then the machine is intelligent.

Deep Blne's programmers were last week playing down their prodigy's abilities. They were careful to point out that the machine is incapable of learning from its mistakes, of feeling, or of intuition. Kasparov, on the other hand, declared before the encoonter: "I don't care how the machine gets there. It feels like thinking."

The human champion put his finger on it. For what will matter in the long run is not a machine can beat a person at chess – that has been on the cards for some time – but how pnblic perceptions will be affected.

We have come to rely on computers. They process our words, store our records, fly our aircraft. So-called expert systems are processing our loan applications, diagnosing our illnesses and choosing our life partners.

If computers are to pose a threat, it will be ona of our own making – to forget that intelligent machines are also essentially stupid. They have the greatest difficulty seeing the wood for the trees, telling the difference between a management goal and a soccer goal. A super-computer can barely mimic the nervous system of a mouse. Where they are useful they are extremely reliable. But they are absolutely unworthy of our trust. When it comes to questions of responsibility, bumans are alone in this world – and likely to remain so.

The FT Interview · Lee Kuan Yew

In the mammoth's shadow

The right relationship with China is crucial to the region's future, Singapore's elder statesman tells **Peter Montagnon** and **James Kynge**

Mr Lee Kuan Yew, Singapore's elder statesman, has never been slow to offer advice to others.

He told Mr Chris Patten, the Hong Kong governor, not to annoy China. That message went unheeded. Now he offers similarly unsentimental advice to Mr Patten's snccessor, Mr Tung Chee-bwa: scrap all Mr Patten's reforms.

Unwelcome as it may be, Mr Lee's advice carries weight. As a statesman of Chinese descent, he can speak with authority on China. As the founder of modern Singapore, who brought his 3m people from absolute poverty to developed status in little more than a generation, be can claim some right to comment on the prospects for Hong Kong.

Singapore, a city state with great prosperity and limited political freedoms, is often seen as a blueprint for Hong Kong after it reverts to China next month. Mr Tung, like Mr Lee before him, faces the task of taking over from British colonial rule and ushering in a distinctively Asian future.

Yet, in an interview, Mr Lee stresses the differences over the similarities. While Singapore is an independent nation state, Mr Tung must retain the approval of China, Hong Kong's new sovereign master. To succeed he must "do the unpleasant things" right at the start by scrapping all reforms introduced by Mr Patten.

"If he [Mr Tung] wants to govern Hong Kong without the Chinese leaders breathing down his neck, he has to assure them that China's security and political interests will not be jeopardised," he says. "Once he's got their confidence, he's in a position to stand up for Hong Kong's economic interests, because there *will* be conflicts of interest."

Hong Kong will thrive because China will become prosperous, he adds, though everything depends on a stable relationship between the US and China.

Picture by Popperfoto/Reuters

Helping hand: Lee Kuan Yew's unsentimental advice on Asian issues carries weight

At 73, Mr Lee shows little outward frailty in spite of the beart problems that afflicted him last year. Always a fitness fanatic, he says ha is exercising almost as vigorously as ha was before the illness struck. The occasional outburst of vebemence or dismissive chuckle betrays a keen pleasure in debate, but be learned as a young barrister never to be cross during cross-examination.

It does not irk him that he was once described by a British diplomat as "the most brilliant man around, though a bit of a thug". Indeed his reputation for calculated perception and brutal realism, acquired over more than three decades of government in Singapore, may explain why his views attract attention.

"If I were Tung, I would adopt laws and regulations in Hong Kong as they were pre-Patten," he says. "Anything post-Patten I would leave out. It can be done simply by an omnibus clause."

Mr Patten's democratic reforms and his bill of rights went beyond what had been agreed with the UK in the Sino-British joint declaration of 1984 and the basic law subsequently enacted by China as Hong Kong's constitution, Mr Lee says. He told Mr Patten before be took office as governor that all would be well if he kept within the spirit and the letter of the joint declaration and tha basic law. "But be did not."

In contrast with its treatment of Singapore, Britain did little to prepare Hong Kong for independence. "There was no attempt to create a Hong Kong identity. If there had been, the Chinese would have stepped in. The British knew that. So Hong Kong society was left unformed and inchoate."

Mr Patten tried to alter this, but he has not succeeded. Instead, in giving China tbe excuse for unpicking his reforms, he may also have given Beijing an opportunity to limit freedoms which existed even before the joint declaration.

Mr Tung, he says, is now "the critical factor". To Mr Lee, he is reserved, a quiet shipping man, but no fool. His origins in Shanghai enabla him to get on with Chinese leaders from there: President Jiang Zemin, Mr Li Lanqing, vice-premier in charge of trade, and Mr Qiao Shi, president of the People's Congress.

"He [Mr Tung] bas to do all tbe unpleasant things early and give people a clear understanding of the basis on which be will govern," he says. "But on political-security issues, if be does not manage Hong Kong in a way that protects China's interests, I see a very difficult time for him and Hong Kong. They [the Chinese] are not going to let Hong Kong upset China politically. They use the metaphor: 'Well water cannot disturb river water.' And Hong Kong is well water."

But if China interferes with Hong Kong, there will be trouble, be says. The US would refuse to recognise Hong Kong's separate status. "The separate qnotas and all the other privileges of being a separate economic unit from China will be at stake.

"My guess is that people in Hong Kong are a pragmatic lot. They know that they have to live witb tbe People's Republic of China," he says.

"Everyone will understand that things are different. It's no longer Chris Patten pressing flesb."

But everything depends on the US relationship with China staying on course. The US, be insists, must engage China to secure stability in the region, but it will never be able to do so properly unless it comes off the fence on Taiwan. If the US-China relationship is derailed "tben everything is in trouble", be says. Singapore would probably not be as much affected as Taiwan or Hong Kong "whicb are more dependent on Chinese trade and investments. But every country in Asia is investing in China."

Taiwan, a democratic island of 21m people regarded by Beijing as a renegada province, is the biggest threat to regional security, says Mr Lee. Washington applauds Taiwanese democracy and is one of the few countries that supplies it with weapons in spite of China's objections.

But the US has not made clear wbetber it would go to war against Beijing to prevent the mainland recovering the island by force. China has said it may attack Taiwan if tha island declared independence or if a foreign power – a clear reference to tha US – tried to win independence for it.

If China hardens its suspicion that Washington is covertly working for Taiwan's independence, then peace in the region would become imperilled, says Mr Lee. US involvement in the Taiwan problem is providing China with the excuse to have an amphibious naval force.

On perhaps the most controversial issue of Taiwan's independence and the attitude of Mr Lee Teng-hui, Taiwan's president, he says: "Lee Teng-hui has only one consuming ambition – to bave Taiwan as separate from China as possible." The belief that President Lee is insincere in his public support for reunification has led Singapore's patriarch to resolve never again to act as a mediator between Taipei and Beijing, as he did informally before Taiwan's elections last year. "I have been undercut by President Lee on a previous occasion. I bave bowed out as his mediator."

On the Chinese side, Mr Lee says he is impressed by Beijing's patience with US domestic politics. On his recent visit to Washington, China's foreign minister, Mr Qian Qichen, rode abova the furore over allegations of Chinese contributions to President Bill Clinton's election campaign. He left the door open for the US to pursue a policy of engagement.

The current generation of leaders in Beijing, many of whom were educated in tbe former Soviet Union, have few common references with the west. Faced with US hostility, it is natural for them to form what Mr Lee calls a tactical alliance with Russia.

"The Russians can make it difficult for the Americans by selling sophisticated weaponry to the Chinese to make them more amphibious. The Chinese would dearly love to have them because of Taiwan," be says.

In the long run, bowever, the two countries are bound to come closer, Mr Lee argues. A different western-educated generation is emerging in China which offers the US its best bope. Mr Qian Ning, son of the foreign minister, wrote a book while he was a student in the US which, far from excoriating western decadence, suggests China might have something to learn from US society. Remarkably, says Mr Lee, Beijing's cultural mandarins allowed the book to be published.

In tbe meantime, tbe going could be tough. There are elements in the US determined not to see China recover Taiwan. That implies a major conflict which the US will not be able to sustain for the next two or three decades given Taiwan's proximity to China.

Japan is not a counterweight to China. Nor is aouth-east Asia a match for 1.2bn Chinese. The stark fact is that, if the US fails to engage with China, it will be isolated in the region because Asia will still have to deal with Beijing. The warning is characteristic and blunt. "Asia's got to live with this huge mammoth."

· O B S E R V E R ·

Waiting on Tokyo Tom

■ Time was when leaving an ambassadorship unfilled was a sign of diplomatic displeasure. The Clinton administration seems to have put paid to that convention by leaving unfilled for months the top posts in around a dozen of its leading embassies.

Most of the bigger gaps – from Paris to Bonn to Moscow – are at last in the process of being filled; but that makes doubly embarrassing the absence of any hard news on who's to succeed former vice-president Walter Mondale as US envoy to Japan.

Word was leaked more than a month ago that President Clinton's choice was Tom Foley, the 68-year-old former Speaker of the House of Representatives with a lifelong interest in Japanese affairs. A formal announcement was said to be imminent but both the White House and Mr Foley's Washington law office insist there's nothing official to say.

The most likely explanation for the administration's apparent foot-dragging is that all appointments are being vetted especially carefully after the controversy over campaign finances and the withdrawal of Tony Lake's nomination as director of the CIA.

The informal naming of Foley followed internal debate within government as to what sort of person was needed for Tokyo: should it be an elder statesman in the Mondale mould, whose appointment would be flattering to the Japanese, or someone who would set diplomatic niceties aside and play hardball over trade issues? The emergence of Foley's name seemed to suggest tha debate had been resolved in favour of the first option. But with the appointment yet to be finalised, who knows?

Loose connection

■ When it comes to political mischief-making, Jacques Parizeau has few peers. The former Quebec premier has tossed his latest grenada with the disclosure during Canada's election campaign that he had been planning a quick UDI if his secessionist forces had won an independence referendum in October 1995.

At the time, the separatists' official line had been that they would take at least a year trying to negotiate a "partnership" with the rest of Canada. But he didn't do his cause much good by telling foreign ambassadors that the Québécois would be like lobsters in boiling water once they had voted "Yes".

Parizeau, 66, could easily be mistaken for a curmudgeonly English aristocrat. He acquired a fondness for tweed jackets and a plummy English accent ("By Jove" is a favourite expression) while completing a doctorate at the London School of Economics.

Since being elbowed out of the Parti Québécois, Parizeau has spent much of his time at a villa in the south of France. His friends include former French president Valéry Giscard d'Estaing – whom he credits with the idea of a Quebec UDI.

On the ball

■ Nelson Mandela's attempts to use his great moral authority to secure peace in war-torn Zaire may have met with mixed results, but South Africa still looks set to play a rola in the country's future.

The Zaire Leopards, the national football team, have warned they can no longer afford the travel costs to complete their remaining qualifying matches for next year's World Cup – whicb bave to be held at neutral vennes because of the chaos in Kinshasa.

To spare the embarrassment of a withdrawal, tbe South African Football Association has responded to Zaire's woes with a generous offer to "assist where wa can". As a result, it seems likely the remaining fixtures will be rescued.

By strange coincidence, it just so happens the mighty Leopards are in the same qualifying group as South Africa's beloved *Bafana Bafana*, who've already beaten them and who stand to lose a possible finals spot to Congo if their points are nullified by Zaire's withdrawal.

Rival arrival

■ Co-operation has allegedly been the game since Italy's Alitalia and France's Air France, trying to stem the haemorrhaging in their accounts, last month started pooling resources on some routes. Passengers on a recent morning flight from Rome to Marseilles may wonder just how far the co-operation goes.

There was only one aircraft but, according to the departures board at Fiumicino Leonardo Da Vinci, there were two separate flights. Even more strange, Alitalia passengers were given a 9.35am departure while those on Air France could expect to leave one minute later. At the other end, things became even more bizarre. At Marseilles' Marignane airport, the arrivals board showed Air France flying 15 minntes behind schedule while Alitalia was adrift by 45 minutes. The flight – and *all* its passengers – arrived 10 minutes late.

The Financial Times

100 years ago

Foolishness Over Gold
What the Buenos Ayres Standard does not know about Argentina is popularly supposed to be not worth knowing. Therefore it is with something like awe that we regard the prediction of that journal that the premium on gold will not decline during the next few months. "We believe," says that journal, "that for the next five or six months distrust will be rampant, and that this state of affairs precludes any failing tendency in the Gold market." A striking comment on this prophecy is thet when it was penned the gold premium stood at 200, whereas it is now quoted at 192.

50 years ago

Egypt's Loan Reqnest
Washington, 10th May. The Egyptian Embassy has now issued a statement about the reported loan negotiations. On receipt of instructions from Cairo, the Ambassador formally approached the State Department requesting a loan of $88,000,000 in gold to increase the currency reserve from its present level of 12.5 per cent to about 25 per cent. But the United States has replied that it never has made a gold loan for such a purpose.

FINANCIAL TIMES
Monday May 12 1997

Spectre of secret famine looms over North Korea

UN officials warn of disaster for an impoverished people

By James Harding on the North Korean border

Mr Liang lcoks across at his nstive North Korea in despair: "Even if you had mooey, you would not be able to buy dogmeat. The food has run out. People look like skeletons, many are dying. They eat anything – wild grasses, rcots, bark from trees...anything."

Mr Liang's family drifted across the border into China a generation ago, hut he fears that his relatives and coontrymen may oow be alipping away in a silent famine.

North Korea's defiantly Stalinist regime has systematically impoverished its people and savage floods in the last two years devastated local crops, bringing the country to the brink of starvation.

World Food Programme officials returning from the capital Pyongyang say that unless substantial emergency food aid arrives by next month, North Korea could turn into "one of the biggest bumanitarian disasters of our lifetime".

A foreign diplomat recently in Pyongyang says many schcol and factory canteens have closed, depriving people of their only guaranteed daily meal. The WFP, tbe UN agency, has appealed for $95.5m for immediate emergeocy relief, but so far has raised less than half that sum. Unlike the famines in Ethiopia and Somalia, where media coverage prompted worldwide concern, North Korea's food ebortage is shrouded in secrecy and the plight of her people is largely unnoticed.

Like China forty years ago – when the banisbed international community was completely unaware thet Chairman Mao's despotic leadership produced a famine costing up to 30m Chinese lives – North Korea today is sealed off from the outside world and tens of thousands may be starving at the hands of tbe dogmatic "Dear Leader", Kim Jong-il.

In tha absence of any reliahle information, Mr Liang and the otbers wbo shuttle backwards and forwarde across the Chinese border with North Korea offer at least a glimpse of the looming crisis.

Mr Wen, also an ethnic Korean, drives trucks of maize and smuggles food to his cousins in neighbouring Nanyang.

"They don't even think of meat and don't want rice," he says. "All they want is maize, because they can mix it with wild vegetables to make porridge. It stays in your stomach longer."

He reports widespread malnutrition, a growing number of deaths from starvation and says he has "been told about people eating the flesh of others who have just died."

However, another driver at the Tumen border crossing is not so sure. "Our dogs eat better here than the people do in North Korea, but they are not eating each other," he says.

Further along the border at Kaishan, the story is the same. Mrs Lee was separated from her elder sister nearly 50 years ago.

Every few months, she walks halfway across the Kaishan bridge and leaves a sack of food and old clothes on the North Korean side.

The border patrol picks up the bag, and for years Mrs Lee's sister waved her thanks from behind the eentry box. Recently her sister died and her son now comes to pick up the parcels.

Aid officials can give no firm estimates of how many have already died, but fear that the crisis will worsen over the summer, as grain stores will run out by June and the harvest is not due until October.

Pyongyang's doctrinaire insistence on Communist methods of farm production has eroded agricultural output, meagre enough in a mountainous country where only 20 per cent of the land is suitable for arable farming.

South Korea, still technically at war with the North after the 1950-53 conflict, says it will not offer food aid until Pyongyang accepts peace talks.

Seoul calculates that if the militarist North cut defence spending by 5 per cent it could afford 1.9m tonnes of grain this year, more than the 1.3m forecast shortfall.

Lcoking across the Tumen river, Mr Liang hlames a wrong-headed leadership.

"There is an element of natural disaster in the problem, but there is also the mentality of a country constantly preparing for war," he says, comparing North Korea'e mass mobilisation to Mao's planned "Great Leap Forward" which caused the 1960s famine in China.

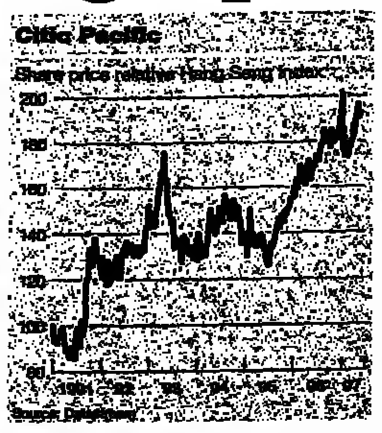
North Korea must learn from China's example, Mr Liang says, adding thet Beijing's open door policy since the late 1970s has "given people meat to eat".

"North Koreans have to open their doors. If they stay closed, they will die."

THE LEX COLUMN

Sizing up Citic

Citic Pacific has long wanted to be an independent and aggressive conglomerate in the mould of Hutchison Whampoa. So its secondary role as a Chinese warehouse for strategic Hong Kong assets must have heen particularly frustrating. The disposal of HK$11.4bn (US$1.47bn) worth of Hongkong Telecom shares on Friday therefore represents a satisfying watershed for the group. Not only has Citic been rewarded for its services to the state with a HK$5bn profit on the investment. But it now has the balance sheet flexibility to invest in more directly managed businesses.



Of course, it still has another HK$10bn tied up in Cathay Pacific, not to mention its recently acquired 20 per cent stake in China Light & Power. Like HKT, these are formerly British-controlled monopolies over which China wanted to raise a red flag with Citic's cash. But the CLP deal should profitably combine Citic's Chinese connections and engineering skills with CLP's ability to manage power plants. Indeed, since the deal was concluded, CLP has reignited stalled attempts to invest in a Shandong power project. The Cathay stake looks slightly less core, but at least Citic has other air interests.

Now thet China's ownership of Citic is down to 26 per cent, and there are other state enterprises wealthy enough to take on Citic's strategic role, the group should be able to invest in more cheap Chinese assets. Bnt then, since the company's market value is already over HK$20bn higher than its net asset value, there is s lot of hope riding on its investment prowess.

UK taxation

If Britain's new chancellor of the exchequer can reinvent monetary policy-making in just a few days, what havoc might his promised review of corporate taxes wreak?

The most obvious potential victim is about as difficult to spot as an elephant in the chancellor's bedroom: Britain's much-loved advance corporation tax (ACT) credit on dividends. Not only does this cost the exchequer some £5bn s year, it also gives pension funds s distorted incentive to prefer dividends over re-invested earnings.

So its life expectancy does not look great. But remember: the chancellor promises a review "to promote greater long-term investment". Simply cutting ths ACT credit would do no such thing. On the contrary, companies would end up shouldering most of the burden and the cost of capital would rise.

One solution, which has something to commend it, would be to funnel the proceeds back to the corporate sector. For instance the main corporation tax rate could be cut. But this would be a big upheaval, with long lists of winners and losers, for a distinctly abstract gain. Moreover from a tax purist's perspective the reform would remove one distortion at the price of accentuating another – it would increase the current tax bias towards investment financed through debt rather than equity.

So might Mr Brown be tempted into more fundamental reform? His taste for *coups de théâtre* suggests the possihility should not be ignored. The snag is that the trendiest wheeze, the so-called Allowance for Corporate Equity, backed by the Institute for Fiscal Studies and the (Blairite) Institute for Public Policy Research, looks a non-starter. It does indeed iron out the big oddities in the system, but could only pay for itself if the corporation tax rate were raised to nearly 50 per cent. That would create a much sharper incentive to avoid tax, as well as doing no favours to the UK as a placa to do business.

A far better alternative would be to make a deep cut in the corporation tax rate, financing the change by aholishing ACT and hringing interest payments into tax. But this would create an even longer list of individual winners and losers. It could also be tricky for Britain to achieve unilaterally, when other countries would be inclined to regard the change as giving the UK an unfair advantage.

Both politically and subetantively, in short, there is a pretty compelling case for sticking with the present imperfect structure. Wholehearted radicalism on this issue, unlike Bank independence, is certainly no source of easy plaudits. And yet the chancellor's review hardly seems likely to conclude thet nothing should be done. There is, after all, truly mouth-watering scope for revenue-raising at stake. So a fudge lcoks highly likely: just cut or abolish the ACT credit, but share the spoils between the corporate sector and the exchequer.

How then should business aim to limit the potential damage? The best bet is not to argue the flimsy case for the present tax credit, nor make the absurd claim that cutting it would raise no revenue. It is to hammer home the straightforward point that a pro-investment corporate tax reform is not one in which the bulk of the proceeds are nabbed by the government.

UK national lottery

Here is a notion worthy of a psychic: Britain's oew government is rumoured to be considering extending its planned windfall tax to savage another regulated monopoly, Camelot. There may not be much of a jackpot to hit – the national lottery operator makes post-tax profits of just £50m or so a year. But even so, the idea of clamping down on alleged lottery fat cats would donbtless have political attractions.

Such cheap wheezes are however far more costly than they look. The reason is simply that the government's reputation for fair dealing is at stake. A retrospective windfall tax is bad enough in itself, hut to turn around now and hit the lottery – a contract awarded well *after* the windfall tax policy was announced – would be even more obviously unfair. The government needs to stop and consider, for instance, how such gratuitous goalpost-moving could be explained to the potential partners it was only last week so anxiously wooing for its stepped-up private finance initiative.

The unwelcome truth is that Labour's attitude to the lottery illustrates that its understanding of business still has some way to go. Consider, for instance, last week's announcement that the next lottery contract must go to a non-profit-making body. The snag is that the profit motive is a powerful driver of sales and efficiency. So cute though a ban on profits may sound, the victims will very likely be the good causes the lottery is purportedly set up to serve.

Pharmacia & Upjohn

Continued from Page 1

before exceptional charges to $194m from $329m. At the ssme time, the board announced a five-point plan to improve finaocial performance, including cutting costs.

Mr Ekberg said that "of course Fred will now take the lead on that", but he would develop his own strategic programme in time. He would also decide what do with the group's non-drugs businesses.

Bre-X death 'was suicide'

Continued from Page 1

Mr de Guzman disappear, and said his relationship with the geologist was professional.

In the Philippines, Mr Jojo de Guzman, Michael's brother, claimed the pilot, in testimony to the Indooesian authorities, said his brother'e suicide note was written on board. "I can say categorically that my brother couldn't have written the suicide note in the chopper." Mr de Guzman said. "It was eight to 10 neatly written pages with no sign of disturbances. If he had written it in the chopper the writing would have been shakier."

Welfare reform planned to boost UK employment

New government aims for central role in Europe

By David Wighton and John Kampfner in London

The new UK government yesterday promised radical welfare reforms to try to raise employment and a shift in foreign policy to emphasise Europe and human rights.

Officials played down reports that there would be significant corporate tax changes in the government's first Budget, which could be held as soon as June 10. But they would not comment on speculstion in the financial community that Mr Gordon Brown, chancellor of the exchequer, would cut the tax credit on share dividends.

The Treasury said Mr Brown would announce this week whether the Budget would be brought forward to June 10.

Mr Peter Mandelson, minister in charge of policy coordination, said the Budget would include actions to encourage single parents to get off welfare and into work, which he described as "the moet significant welfare changes that we've seen in this country for 50 years".

Among other measuree thought to be under consideration are offering single parents the option of converting benefits into tax allowances. But Treasury officials indicated that such radical reforms would not be a matter for the first Budget.

An adviser to Mr Brown played down press reports suggesting Mr Brown would introduce immediate changes to capital gains tax and corporation tax, as part of the strategy to stimulate investment. "Most of this is longer-term stuff," said the aide.

Labour has promised s review of the corporate and cspital gains tax regimes, including the proposal to introduce a two-tier system of capital gains tax with a lower rate applying to long-term investments. This would tie in with the proposed change of the Treasury's "miesion statement" to include the goal of "achieving high and stable levels of growth and employment".

But the only corporate tax change thought likely in the Budget is a cut in the tax credit on dividends. Although this would hit the income of pension funds, the move would be presented as encouraging companies to invest rather than pay out high dividends.

The shift in foreign policy will be spelt out today by Mr Robin Cook, foreign secretary, in his department's "mission statement".

It seeks to make Britain one of the three leaders in Europe with France and Germany. Human rights and the global environment will be placed at the centre of policy, with tougher guidelines on arms sales.

Mr Cook, in his first trip as foreign secretary last week, announced joint moves with France and Germany towards an international ban on anti-personnel landmines. Mr Cook takes part in his first multilateral meeting today, a gathering of foreign ministers of the Western European Union, Europe's defence arm.

Mr Brown travels to Brussels to attend his first meeting of Ecofin, the European Union finance ministers.

● The government is also due to announce this week the end of the 13-year ban on trades union rights at the GCHQ intelligence centre.

Editorial Comment, Page 15

FT WEATHER GUIDE

Europe today

Most of western Europe will continue unsettled. Ireland and Scotland will have cloud and rain. Most of England will have showers, except the south east and East Anglia.

Showers will also form in tha eastern Benelux, west Germany and France. Some thunder showers are possible.

The Iberian peninsula, Italy and eastern Europe will be dry.

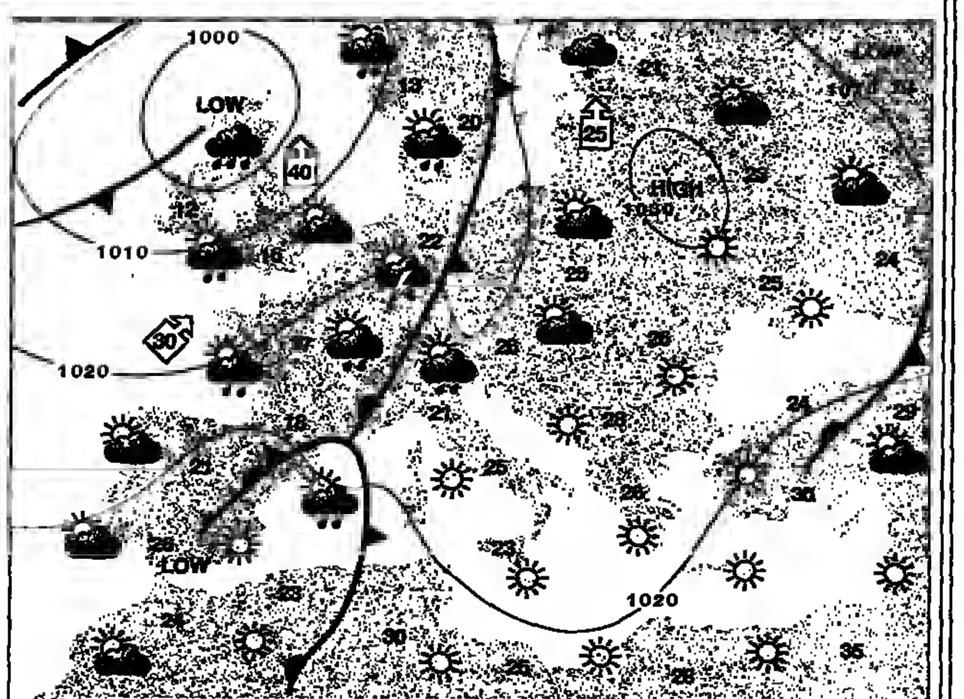
Scattered cloud is expected in Portugal and northern Spain. Italy, Greece and tha countries around tha Black Sea will be aunny.

Western Europe will become milder and the south east will remain summerlike.

Five-day forecast

Eastern Europe will remain sunny and warm. A ridge of high pressure will stretch towards western Europe

The north and Scandinavia will become settled and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	cloudy 27	Caracas	cloudy 31	Faro	fair 21	Madrid	sun 24	Rangoon	fair 32
	Celsius	Belfast	rain 12	Cardiff	shower 13	Frankfurt	thund 16	Majorca	shower 22	Reykjavik	fair 6
Abu Dhabi	sun 37	Belgrade	sun 28	Casablanca	fair 21	Geneva	rain 16	Malta	sun 23	Rio	fair 27
Accra	fair 31	Berlin	fair 22	Chicago	fair 17	Gibraltar	fair 23	Manchester	shower 14	Rome	sun 25
Algiers	fair 21	Bermuda	fair 24	Cologne	fair 16	Glasgow	rain 11	Manila	fair 33	S. Frsco	fair 20
Amsterdam	fair 16	Bogota	cloudy 20	Dakar	fair 26	Hamburg	shower 16	Melbourne	fair 16	Seoul	rain 26
Athens	sun 26	Bombay	fair 33	Dallas	shower 27	Helsinki	fair 20	Mexico City	fair 24	Singapore	thund 34
Atlanta	fair 26	Brussels	fair 16	Delhi	sun 29	Hong Kong	fair 29	Miami	fair 29	Stockholm	cloudy 20
B. Aires	fair 25	Budapest	sun 28	Dubai	sun 33	Honolulu	fair 30	Milan	shower 16	Strasbourg	shower 16
B.ham	shower 14	C.hagen	fair 15	Dublin	rain 13	Istanbul	sun 24	Montreal	shower 15	Sydney	shower 18
Bangkok	fair 37	Cairo	fair 32	Dubrovnik	sun 25	Jakarta	fair 32	Moscow	fair 20	Tangier	fair 22
Barcelona	fair 16	Cape Town	sun 23	Edinburgh	rain 12	Jersey	fair 14	Munich	fair 23	Tel Aviv	fair 30
						Karachi	sun 34	Nairobi	shower 26	Tokyo	shower 24
						Kuwait	sun 38	Naples	sun 25	Toronto	fair 15
						L. Angeles	fair 23	Nassau	shower 30	Vancouver	fair 21
						Las Palmas	fair 25	New York	shower 23	Venice	fair 22
						Lima	cloudy 26	Nice	rain 22	Vienna	fair 27
						Lisbon	fair 20	Nicosia	fair 34	Warsaw	fair 25
						London	fair 16	Oslo	shower 15	Washington	shower 25
						Lux.bourg	fair 16	Paris	fair 17	Wellington	rain 15
						Lyon	shower 16	Perth	fair 20	Winnipeg	snow 7
						Madeira	shower 18	Prague	fair 25	Zurich	rain 18